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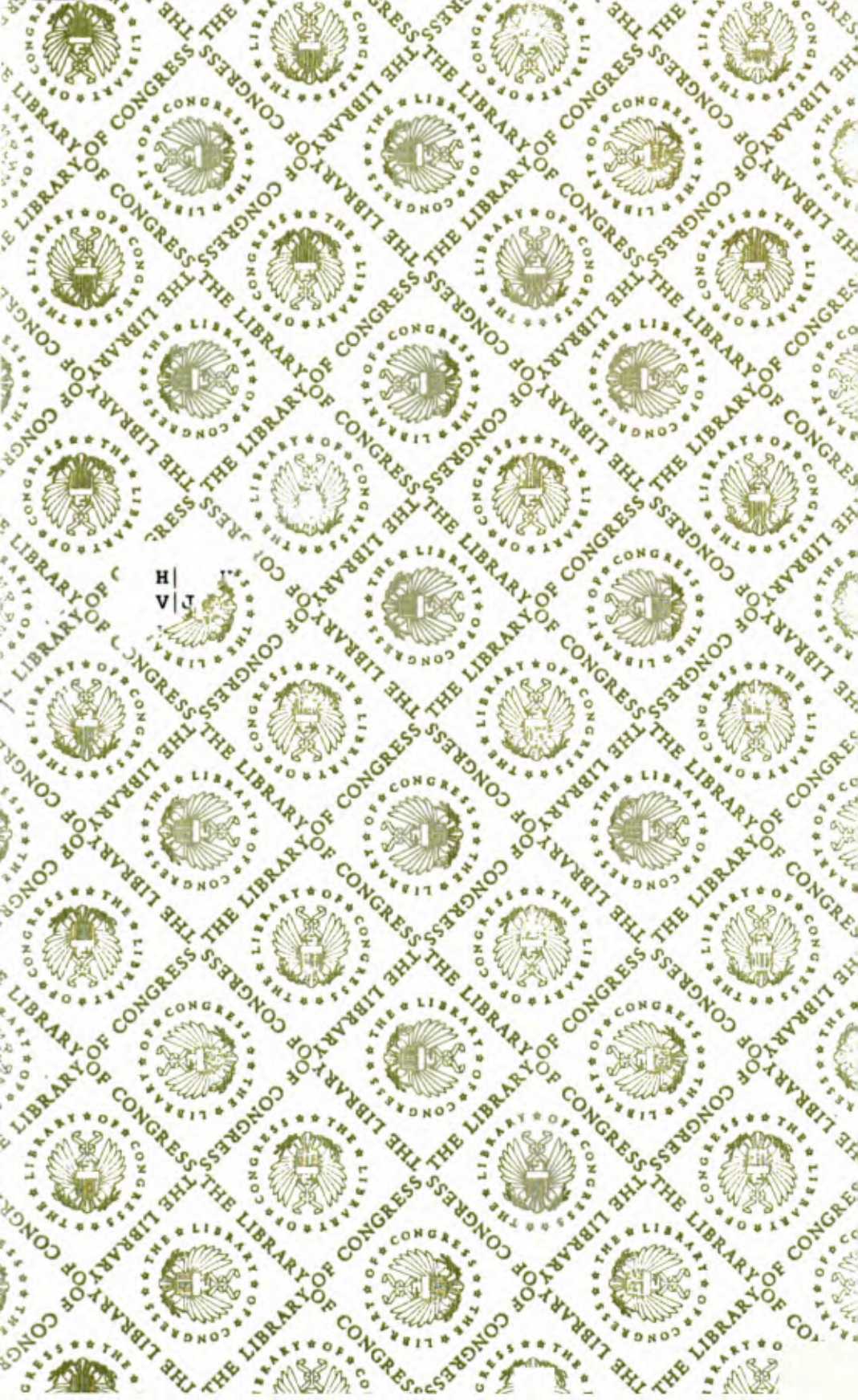
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PATENT REFORM AND THE PATENT AND TRADE- MARK OFFICE REAUTHORIZATION FOR FISCAL YEAR 2000



HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS AND INTELLECTUAL
PROPERTY

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

MARCH 25, 1999

Serial No. 51



Printed for the use of the Committee on the Judiciary

U.S. GOVERNMENT PRINTING OFFICE

62-506

WASHINGTON : 2000

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-060781-7

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PATENT REFORM AND THE PATENT AND TRADEMARK OFFICE REAUTHORIZATION FOR FISCAL YEAR 2000

THURSDAY, MARCH 25, 1999

**HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS AND
INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
*Washington, DC.***

The subcommittee met, pursuant to call, at 2 p.m., in Room 2226, Rayburn House Office Building, Howard Coble (Chairman of the Subcommittee) presiding.

Present: Representatives Howard L. Berman, Zoe Lofgren, Robert Wexler, Edward A. Pease, and William D. Delahunt.

Staff present: Majority: Mitch Glazier, Chief Counsel; Blaine Merritt, Counsel; Eunice Goldring, Staff Assistant; Minority: Bari Schwartz, Minority Counsel.

OPENING STATEMENT OF CHAIRMAN COBLE

Mr. COBLE. The subcommittee will come to order.

It is good to have all of you with us. Technology now provides about $\frac{2}{3}$ of productivity gains for workers on the job and about $\frac{1}{3}$ of the U.S. economic growth.

That inevitably means better paying jobs for now and more jobs for the future. But to realize this vision, science must move with pace out of the laboratory, through the Patent and Trademark Office, and onto the factory floor.

In furtherance of this modernization goal, the subcommittee and our witnesses will examine two bills at today's hearing: a Committee Print of the "American Inventors' Protection Act," and H.R. 1225, the "Patent and Trademark Office Reauthorization Act, Fiscal Year 2000."

The Committee Print is a 96-page work in progress. It contains many of the same provisions that were included in H.R. 400, unknown to probably no one in the room, and S.507 from the previous Congress.

It also contains revisions that have been suggested by two of our witnesses today, Representative Rohrabacher and Representative Campbell, each from California. Our staff will continue to work with these gentlemen and other interested parties to develop a more finished product that should generate consensus support from the Patent and Trademark communities.

Once this work is complete, the bill will be introduced. The Reauthorization bill is premised on the same policy goal as last year's version, H.R. 3723; namely, to prevent the diversion of revenue generated by special surcharges from the Patent and Trademark Office.

The point of the bill is straightforward and necessary: to allow the agency to keep all of the revenue it raises in user fees to benefit American inventors and trademark holders.

I am now pleased to recognize the Ranking Member, the gentleman from California, Mr. Berman.

[The prepared statement of Mr. Coble follows:]

PREPARED STATEMENT OF HON. HOWARD COBLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA, AND CHAIRMAN, SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY

Good afternoon. The Subcommittee will come to order.

Technology now provides about two-thirds of productivity gains for workers on the job, and about one-third of U.S. economic growth. That means better-paying jobs for now and more jobs for the future. But to realize this vision, science must move apace out of the laboratory, through the Patent and Trademark Office, and onto the factory floor.

To advance American technology, strengthen our nation's global competitiveness, and to reward inventors on a more timely basis, we can't live with a patent system much of whose structure predates even the emergence of biotechnology, semiconductors, software, Internet and electronic commerce applications, and other high-growth technologies. This is not a big versus small debate. It is about making sure that the U.S. patent system is not undermined by our inaction. Reforms of the U.S. patent system are needed now. Our nation can ill afford for Congress to delay any further in enacting comprehensive amendments to our Patent Act, its predecessor being the fifth law that President George Washington ever signed.

In furtherance of this modernization goal, the Subcommittee and our witnesses will examine two bills at today's hearing: a Committee Print of the "American Inventors' Protection Act," and H.R. 1225, the "Patent and Trademark Office Reauthorization Act, Fiscal Year 2000."

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I now turn to the Ranking Members from California, Mr. Berman, for his opening statement.

Mr. BERMAN. Thank you very much, Mr. Chairman.

I congratulate you for setting this hearing and indicating that this is a priority for us. I support your efforts to try and get this legislation enacted and do what we need to do to make that happen.

I do not have a formal opening statement. I will have to probably leave before the end of the hearing because of some other commitments. We have discussed this issue in the past. I look forward to hearing the witnesses today.

Mr. COBLE. I thank the gentleman.

For those of you who are familiar with Mr. Berman and me, we try to, in a gentlemanly sort of way we try to, operate under the 5-minute rule. When the red light illuminates in your eyes, Mr.

Campbell, you will not be keel-hauled, but if you could lash her down at that point, that way because we have three panels today.

We have activity going on, on the Floor now. There are other meetings involved as well. So, if you all could comply with the 5-minute rule, we will be appreciative. I can assure you that your written testimony will be examined thoroughly.

Mr. Campbell, I do not know, do you know whether Mr. Rohrabacher is on route?

Mr. CAMPBELL. I do not know. I am sorry, Mr. Chairman.

Mr. COBLE. Well, we are pleased to have you before us.

Why do we not start with you then, Tom. We are glad to have you with us. We will be pleased to hear from you.

STATEMENT OF HON. TOM CAMPBELL, A REPRESENTATIVE FROM THE STATE OF CALIFORNIA

Mr. CAMPBELL. Chairman Coble, you have been exceptionally gracious in our dealings on this bill. I am most grateful for your time and that of your staff, Mr. Glazier, in particular who has met with me.

I want to also say that last night I heard from the Patent and Trademark Office that they were interested in meeting with me. I was in the midst on some work on Kosovo. So, I was not able to. Just because PTO is represented in the room today, I want them to know that I would be anxious to meet with them as well.

Here are my three points. I think I will be under 5 minutes. Hopefully then, you will yield back this time for later use in later appearances before your committee. There is no need that I could yet figure out for the prior commercial use.

I have checked with as many high tech companies as I can. The prior commercial use exception that you have written in the bill is page 19, title II. What it says basically is if you have invented first and you are commercially using the technology, then even though somebody patents first, you can continue that commercial use.

I do not want to over-estimate it, but I have got to say that the high tech companies with which I spoke in preparation for my testimony today said that this undermines the whole idea of encouraging people to file for a patent.

Now, last year when the bill came to the Floor, what I said was—the argument that the prior commercial user is look, we were innocent. We just did not choose to file it. So, please let us continue what we were doing.

The rebuttal is very strong. The rebuttal says, for heaven's sake. That is what you get for not patenting it. The idea here is to get people to patent so that it is not secret. If you allow an exception, which your bill does in title II for prior commercial use, I think it undermines that incentive in an important way.

Last year, what I offered on the Floor was an amendment which might serve, if I am—I do not think I will be. I think we are going to be working together, Mr. Chairman. I am very confident that you will present a bill that will incorporate what little contribution I can make.

If we do have to go to compromise, what I thought was if there is some argument that the prior commercial user should be entitled

to continue that use, then do not let the use expand. Limit it to the scope.

The real issue here is small commercial user, somebody else patents it. The small commercial user sells to Behemoth Corporation. Then Behemoth Corporation then takes what was 10 units a month and makes 1,000 units a month.

So, if you need to have that prior commercial use, then it seems, out of some sense of fairness, although I confess again, it does convince me, but if that is the notion out of some sense of fairness or equity, then do not let it be expanded. Limit it to the scope of its present prior commercial use. That was my first point.

Second, I do not understand why we continue to need the 18-month disclosure if we take your route, Mr. Chairman, on a 20-year maximum from date of application. The argument for the 18-month disclosure for those patents not filed overseas, the argument was this is to prevent the submarine patent.

The inventor who hides his or her invention waiting for somebody else to commercialize it. Then when somebody else has put in all of the effort to commercialize it, surfaces and gets the patent because they were the first to file; having hidden it all of these years by motions to extend and other dilatory tactics.

You have taken care of that, it seems to me, by saying that in no event are you going to get more than 20 years from the date of filing. What you say then is 3 years is presumptively—any more than 3 years in the Patent Office is presumptively dilatory.

So, you end up with a 17-year effective patent term. That seems fine. But that, to me, solves the submarine patent issue. The last point on this one, and then I have only final point. If I am wrong on that, Lord knows I could be, you nevertheless make one slight, I think, overdraft in that you say 18 months' disclosure will apply if you file overseas, which is fair.

Overseas, there is mandatory disclosure after 18 months. So, why should not Americans have the publication as well. But you say not only if you file overseas, but unless you give up your right ever to file overseas—let me repeat that. It is not just if you file overseas, but if you fail to give up your right ever to file overseas, that is required in your draft. That is not necessary, it seems to me, because if you are filing overseas, fine. Then it is going to be publicly disclosed.

So, there is no reason why you should not have to disclose it here in America after 18 months. If you decide to file overseas many years from now, under economic conditions that are changed, you should not have to—that possibility now at this point by promising forever not to file overseas.

So, it is a small wording changing. It can be adjusted I think. Lastly, oh, I do not have any lastly. I do if you give me one more minute. I have already extended now. Maybe I should not throw myself on the mercy so early in this process.

Mr. COBLE. It is early in the day, so we will be tolerant.

Mr. CAMPBELL. I am grateful and it is reexamination. I have talked to small inventors and high tech firms. There is concern. I do not think this is unworkable. I think it can be worked out. There is concern that the reexam process should not be another

bite at the apple, but should very clearly stay patent infringement litigation.

Otherwise, what you are doing is just setting up a new way to challenge a patent. If the idea of the bill is to expedite and make more efficient challenges to the grant of a patent under prior art, which is the purpose of the reexam, then you ought to stay litigation during the pendency of that reexam.

Otherwise, you put the challenger to the patent in the position of being able to choose his or her forum and just create one extra opportunity to challenge. You ought to at least stay the proceedings.

That is it and thank you for your time, Mr. Chairman.

Mr. COBLE. I thank you. I apologize. I did not identify your District, Tom. You represent the 15th District in California. I feel this is a California caucus, Mr. Berman, you and Dana.

Dana, good to have you with us. You represent the 45th District in California. Mr. Rohrabacher, if you could within 5 minutes we would be appreciative because we have a full day ahead of us.

Mr. ROHRABACHER. I will do my very best. Thank you very much, Mr. Chairman. I apologize for being here a little bit late. Here we are trying to champion new technologies, and how dependent we are upon them, and my computer froze up. I have got my old copy with all of my scratches on it to go from. So, anyway you understand that.

I appreciate very much the cooperation that we have developed in these last few months. There has been considerable progress that has been made. I do believe that the differences between the two positions that emerged over the last few sessions of Congress has been narrowed considerably.

I think that this is due to the fact that there is now, instead of a spirit of adversity, an adversarial spirit, there is a spirit of cooperation that is being felt on both sides of the issue. I should not say both sides because there are not just two sides; just the spirit of cooperation of all of those involved. Acting Commissioner Dickinson is a breath of fresh air. He is serving as a facilitator rather than a confrontationalist. That has helped as well.

He came over to my office and reached out and asking my opinion and things such as that. That was very, very positive on his part. Of course, I especially appreciate you, Mr. Chairman, that you have done your best to try to provide information so we can find out if there are areas where we can work together and areas where we disagree.

Because of that, because of your initiative, we have actually been able to make that progress. With that said, I would like to go over a few of the concerns, but acknowledge that we have come quite a distance and I very optimistic.

One of my areas of concerns deals with title II. I am sure that Tom—I will not just reiterate what Tom said about it because Tom is especially focused on the idea that trade secrets are so contrary to what the Founding Fathers had in mind in terms of patent protection.

The Founding Fathers had two ideas in mind for the patent system. The purpose was number one, to protect the inventor so the inventor could receive a benefit. Thus, there would be more people

who would put their investment and their time into inventing new things.

Number two, the widest possible dissemination of all scientific information once that was protected. Trade secrets go contrary to that, to both of those goals. So, that is a concern. I am sure Tom has gone through the details on that.

Title IV, in terms of the Publication of Foreign Applications Act, although I certainly support the overall effect of this section, there are still some specific areas that should be addressed.

This section is where I, if Tom's area is trade secrets, then my major concern is this. I will just put it right out. That first and foremost, publication in the United States must not be required to publication abroad. The content of the application that is published here in the United States must be no greater than that which is published abroad.

Thus, where we disagreed in the last session because there was a fear that things would be published overseas and then our people would not have to publish it here, and it would give some sort of confusion and disadvantage to our own producers here, if we have the compromise that whatever is published overseas can be published here, I have no objection to that at all.

If we could move forward on that, I think that is something we should look at. I think the wording is not exactly there, but we are on the road to that. Also, the expense of early publication should not be applied to the filing, issuing, or maintenance fees unless that person is subject to that publication. Whereas, I do not believe all the things should be published unless it is published overseas. Thus, those fees should not be for people whose items are not being published.

There will be some people who simply want to wait to apply in the United States, and wait for their patent to be granted to them because they do not want it to be published until after the patent is issued. If patents are issued within a year or so, then all of this is sort of moot.

Title V, patent litigation reduction; although I generally support this section, any attempt to reform, and I think Tom was addressing this, the reexamination procedures, should not basically establish a courtroom type scene within the PTO.

I do not believe that we should have oral argumentation in front of the PTO, although we can. As I say, I generally support the positions you have already put down in your legislation. We want to make sure we take a little extra care to make sure that it does not become a courtroom situation in the PTO.

For example, people can offer their written argumentation without having to present oral arguments. We also want to make sure that this is not just another bite at the apple, as Tom put it. I think that is very important. I have some other considerations that I would like to put for the record, and just some of those considerations, Mr. Chairman. You will get that in a written form. I would like for you to consider adding one bit of text.

That is if a patent is issued and then there is a challenger, whether it is inside the PTO, or outside the PTO in terms of reexamination after the patent has been issued, or outside in terms of a court challenge, I think that it would be something that would

be beneficial to the purposes of the patent system to see that if the challenger sues or moves forward with legal action, that if he loses against that patent owner, someone who has already been issued that patent that, that challenger should pay the legal fees for the patent holder.

That way you do not have some very big entities who are able then to just with deep pockets challenge these things and just pay—they are able to pay everything, where the other guy will not be able to pay much at all in his protection.

That sort of loser pay system within the patent system would, I think, go a long way to calming some of the fears of some of our inventors. With that, I thank you very much. Again, I appreciate the cooperative spirit. We have some of the other things in writing to the committee.

[The prepared statement of Mr. Rohrabacher follows:]

PREPARED STATEMENT OF HON. DANA ROHRBACHER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, thank you for the opportunity to address the subcommittee this afternoon on a day of optimism. As many of you in this room know, the Chairman and I have both spent many hours of effort pursuing our respective goals for patent reform the past several years. Echoing the Chairman's sentiments I, too, believe this is a time for cooperation and not the continued competition and polarization so often indicative of the past. I know that the Chairman and I have consistently supported each other on many other crucial votes throughout our terms—in fact I'm sure that our voting records are nearly identical.

Therefore, I am pleased that we have recently made an effort to work together to reach an agreement on the relevant issues of patent reform that have occupied my thoughts for so long. We have an opportunity to strengthen the United States patent system—the very system that continues to secure our technological and economic success, strengthen our defense, and reinforce our global leadership. Together, we can realize this goal.

I applaud the efforts of Acting Commissioner Dickinson, who has been a major force in facilitating communication among both government and industry. He sought out my office to introduce himself and communicate a revised, open approach without the stigma of a past agenda. He is a welcome addition to our discussions and, hopefully, he will continue to embrace a diplomatic role.

Thank you, Mr. Chairman, for sending the initial draft of your proposed bill, the "American Inventors Protection Act," to my office. I appreciate having the opportunity to evaluate the its effects, in hope that it would provide the basis for a unified bill for this Congress.

I should note here that I, and those I rely on for advice, are still analyzing the effects of the committee print, and thus I may have revised or additional comments later for the record. However, I believe that we have come a long way toward reaching an agreement, and although there are still important differences to address, the momentum generated by this hearing may have the power to complete the journey.

Let me begin by expressing the areas that I generally support, after a first blush:

- Title I—Inventors' Rights Act
- Title III—Patent Term Guarantee Act
- Title VI—Patent and Trademark Office Efficiency Act

With that said, there are some remaining concerns and areas of disagreement that I have discovered in my initial review.

TITLE II—FIRST TO INVENT DEFENSE ACT

As I have always held, due to the constitutional issues involved and Supreme Court precedent, we simply cannot champion trade secret protection over patent protection for clearly patentable subject matter. We cannot betray our Founding Fathers by abandoning the foundation upon which our patent system is based. We cannot allow state-based rights to trump long-standing Federally created intellectual property rights. We cannot openly advocate secrecy when our patent system calls

for us to vigorously promote the progress of science through the sharing of critical technology information.

With that said, however, all is not lost. Perhaps there is a way in the context of an overall agreement that I could support a narrow application of a first-to-invent defense.

1. The defense should be limited to the original, first inventor. This should be so regardless of any business assignment or transfer of the entire enterprise. The only way, perhaps, the right to use this defense should attach to the transfer of the entire business would be if the transfer occurred *before* the original file-date of the patent subject matter in question (page 21, lines 17-22).
2. The successful use of this defense should not then allow the defense-user to expand the scope of his or her business in either quantity or volume (20, 20-25).
3. This defense should not be available in the case of an infringement suit where a Federal judge has ruled that the subject matter of the disputed patent was *clearly* of a patentable nature. This view is unmistakably supported by Supreme Court precedent (*Kewanee Oil v. Bicron*, 416 U.S. 470, 489 (1974)).

TITLE III—PATENT TERM GUARANTEE ACT

My goal all along has been to assure a minimum patent term of 17 years from the date a patent is granted. Failing that, I have insisted on a guarantee that the PTO will extend the patent term as necessary to assure a term of 17 years from filing for non-dilatory applicants. The language of this draft appears to codify this approach.

This approach effectively eliminates the claimed submarine patent dilemma while providing a specific framework from which the Patent and Trademark Office must monitor and compensate the loss of any patent term time due to delay for which the applicant has no responsibility.

This approach essentially gives back to the non-dilatory patent holder what I have fought so hard for—a guaranteed 17 year patent term. The patentee once again will have the right to exclude the public from his invention for a limited time—a time that is guaranteed and clearly defined.

TITLE IV—PUBLICATION OF FOREIGN APPLICATIONS ACT

Although I certainly support the overall effect of this section, there are still specific areas that must be addressed.

First, publication in the United States must not be required prior to publication abroad, and the content of the application published in the United States must be no greater than that published by the foreign patent system.

Finally, the expense of early publication should not be applied to filing, issuing, or maintenance fees, since not all applicants will automatically be subjected to this procedure. Unequivocally, a separate publication fee should be charged to those applicants who are published (39, 18-21).

TITLE V—PATENT LITIGATION REDUCTION ACT

Although I generally support this section, any attempt to reform reexam procedures should in no way expose the PTO to an authentic, adversarial courtroom setting. With that, no oral argumentation should be permitted.

Of course, all reexam procedures should begin with a presumption of patentability if a patent has issued. We must give the reexam requester and respondent the opportunity to submit a written brief to the PTO arguing respective positions, but, again, without permitting an oral argument.

We should continue the impermissibility of pre-issuance third party opposition as an acceptable means for reexam request.

Any issues that were brought during reexam, or reasonably could have been brought, should be barred from separate litigation in a district court. It is important to note that the issue addressed in reexam should be barred and not just the third party requestor who raised the issue.

Most importantly, Mr. Chairman, I would like you consider adding text requires the reexam challenger, other than the patentee himself, to be responsible for any legal fees of the patent holder, if the challenger loses. In this regard, I have attached text from my drafted bill under Attachment A.

Furthermore, I have attached text for your review that pertains to the concept of making reexam a mandatory process before pursuing a patent validity dispute in a district court. This attachment is under the label of Attachment B.

TITLE VI—PATENT AND TRADEMARK OFFICE EFFICIENCY ACT

I recognize and applaud the intent of this committee print to lift hiring restrictions and to provide for an incentive program to promote long-term career development and guarantee patent examiner training opportunities. As an independent agency, coupled with text reinforcing our intentions, we have ensured that all fees collected by the Patent and Trademark Office will be retained for exclusive use by the Patent and Trademark Office. This is a factor we can all support.

In considering the issue of reorganization, I have always intended to assist the Patent and Trademark Office in operating more efficiently. And I could support the PTO as an independent agency as long as it is subject to all provisions established by the Administrative Procedure Act. The only constraints I've maintained are that the PTO remains as a Federal government entity, and continues to appreciate its own quasi-judicial function in the noble service it provides.

TITLE VII—MISCELLANEOUS PATENT PROVISIONS

I support this section, but I feel we should investigate the potential merits of adding a sub-section that addresses further limitations on the use of technical defenses. I have attached relevant text for your review under the label of Attachment C.

We should also investigate implementing additional fee reductions for small businesses and independent inventors, to ease their financial burdens. This textual attachment is under Attachment D.

CONCLUSION AND FUTURE CONSIDERATIONS

Mr. Chairman, having discussed my concerns, perhaps it is even more evident why I am optimistic that the opportunity for unified legislation can be realized. I am hopeful we can move forward in these areas and reach complete agreement.

On a final note, and possibly the most important, I want to make sure that if we are able to pass a unified bill in the House, we will firmly stand behind the text of this bill in the event of contrary action by the Senate.

Recognizing the oath I took to faithfully serve the people, I know it is up to us to carry on the tradition of Thomas Jefferson, Benjamin Franklin and the will of our Founding Fathers. They provided our newly formed nation with a foundation for freedom and the added security of an exclusive right for American inventors. They have helped perpetuate a society so prosperous that even the common man could own the product of his labor. I, too, want to preserve that society—this has been the very basis of my stance on patent reform.

I want to ensure that our patent system continues to respect the fundamentals of our Founding Fathers while at the same time enhancing its operability in a modern society. We have a chance to finally create a reformed system that better helps all of our nation's inventors receive stronger protection for their achievements. Our patent system always has—and always will—stimulate the creation of jobs, advance our technological leadership, and help to sustain our unprecedented standard of living.

In the Science Committee hearing room there is an old proverb noticeably inscribed on the wall. It says that "Where there is no vision, the people perish." I hope—as we all do—for a unified vision depicting a stronger patent system. Working together, we have the power to achieve a common end that we can all take pride in, knowing our labors have served America and its great people well.

I pledge to continue to work toward an agreement on the issues and hope that a unified bill is a real possibility. I know that these issues have dragged on over the last several years, but perhaps a more resounding success will ultimately result. And as the father of our patent system, Thomas Jefferson, always felt, "Delay is preferable to error."

ATTACHMENT A

Sec. 407. Attorneys' Fees. 1

(a) IN GENERAL.—Chapter 30 of title 35, United States Code, is amended by adding at the end the following new section:

"§310. Mandatory award of attorneys' fees

"A third-party requester whose request for a reexamination results in an order under section 304 of this title shall be liable for the reasonable attorneys' fees and cost of the patent owner in connection with the reexamination proceeding if any claim challenged as unpatentable by the third-party requester in the reexamination proceeding is finally determined to be not unpatentable. The Commissioner shall establish a procedure for adjudging and awarding requests for attorneys' fees under this section, except that proceedings on such a request shall not delay issuance of the certificate under section 307(a) of this title."

- (b) CONFORMING AMENDMENT.—The table of sections for chapter 30 of title 35, United States Code, is amended by adding at the end the following new item:
 "310. Mandatory award of attorneys' fees."

ATTACHMENT B

Sec. 610. Reduction of Invalidity Litigation. 16

Section 282 of title 35, United States Code, is amended by adding at the end the following new sub-section:

"(g) Notwithstanding any other provision of law, no person may bring an action under section 2201 of title 28 seeking a declaratory judgment of invalidity of any claim that the person could raise by filing a request under chapter 30 of this title. Nothing in this section shall prevent any person from asserting invalidity of the patent as a defense to a patent-infringement lawsuit."

ATTACHMENT C

Sec. 609. Limitation of Technical Defenses. 5

(a) DEFENSES.—Section 282 of title 35, United States Code, is amended—

- (1) by designating the first paragraph as sub-section (a);
- (2) by designating the second paragraph as subsection (b);
- (3) by designating the sentence that begins "In actions involving the validity" and the succeeding sentence as subsection (e);
- (4) by designating the last paragraph as sub-section (f);
- (5) in subsection (b), as so designated, by re-designating paragraph (4) as paragraph (5) and by inserting after paragraph (3) the following:

"(4) Absence of sufficient interest by the party plaintiff to bring the action by virtue of a failure to comply with section 116 or 256 of this title, on the grounds that the interest of the party plaintiff derives solely through persons who are not inventors."; and

- (6) by inserting after subsection (b), as designated by this section, the following new sub-sections:

"(c) Except as provided in subsection (b)(4), a defense of invalidity of a patent for failure to comply with section 116 or 256 may be raised only by a person who asserts the right to practice the invention claimed by the patent as an omitted inventor or a licensee of an omitted inventor.

"(d) No patent, once issued, shall be held invalid or unenforceable because of any of the following:

"(1) The presence of any defect, error, or omission in any oath or declaration submitted pursuant to this title, unless clear and convincing evidence is shown that the Patent and Trademark Office would not have issued the patent absent such defect, error, or omission.

"(2) The presence of any defect, error, or omission in any drawing, specimen, or model submitted pursuant to section 112 or 113 of this title, unless clear and convincing evidence is shown that the Patent and Trademark Office would not have issued the patent absent such defect, error, or omission."

(b) CORRECTION OF NAMED INVENTOR.—Section 256 of title 35, United States Code, is amended—

- (1) by striking "the Commissioner may" and inserting "the Commissioner shall";
- (2) by striking "may order" and inserting "shall order"; and
- (3) by inserting after "in this section." in the second paragraph the following new sentences: "The error of omitting inventors shall not invalidate the patent in which such error occurred if the omitted inventors were, at any time, under

an obligation to assign their complete interest in the patent to the patentee. The error of naming persons who are not inventors shall not invalidate the patent in which such error occurred unless such named persons were, at no time, under an obligation to assign their complete interest in the patent to the patentee."

ATTACHMENT D

Sec. 606. Reduction of Fees for Small Entities.

(a) **REDUCTION IN FEES.**—Section 41(h)(1) of title 35, United States Code, is amended by striking "Fees charged under subsection (a) or (b)" and inserting "All fees charged by the Patent and Trademark Office in connection with an application for patent or an issued patent".

(b) **EFFECTIVE DATE.**—The amendment made by this section shall take effect on the first day of the first fiscal year that begins on or after the date of the enactment of this Act.

Mr. COBLE. Well, we thank the gentleman. Without objection, your respective written statements will be placed into the record and be made a part of the record. I have no questions for either of you, but let me make a comment.

Tom, if you are suggesting that the submarine patent problem is not a problem, you and I are not in disagreement. Is that your position? Do you think that is in fact not a problem?

Mr. CAMPBELL. No. I think submarine patents are a problem. I believe you have solved it in the bill and you do not need the 18 months as an additional way to solve it.

Mr. COBLE. Very well. That was not the answer I was expecting, but the one I am glad to get. Thank you gentlemen. The gentleman from California.

Mr. BERMAN. Thank you, Mr. Chairman.

I do not know a lot about this area, but I will try to learn. I heard you say two things that struck me as somewhat inconsistent. You said, why do you have to have a prior commercial use exception? The person who is doing that should have gone for their patent so that it would not be secret.

But then you object to not only the original publication obligation within 18 months without regard to whether it has been approved or not, even if it has not been approved, but even this sort of diluted publication requirement.

Is not publication about making sure it is not secret? Is that not what you said was the goal and why somebody with prior commercial use should not be given special protection?

Mr. CAMPBELL. The 18 months is pre-grant. I totally agree. The idea of the patent system is once you have been granted your patent, you disclose. That is why I do not like the commercial prior use exception.

The whole debate over 18 months is if the Patent Office has taken so long, and you have not yet been granted it, should you be forced to disclosed? Dare I say not.

Mr. BERMAN. Why?

Mr. CAMPBELL. Because you have the right to shop your idea. As you shop your idea, which is largely what happens, if the clock runs at 18 months and your idea is publicly out there, you cannot shop your idea anymore. You can shop your patent because that is that valuable intellectual property or you can shop your idea. If you go the patent route—

Mr. BERMAN. I do not understand. You still have the protection of the patent. So, now the world knows about the idea.

Mr. ROHRABACHER. No. It is not granted yet. No, you do not have the patent protection at that point.

Mr. CAMPBELL. Let me try once more. I apologize. The only thing that bothers me is that for the first time in law, this is absolutely novel, this bill would require disclosure before the patent is granted. I am totally for disclosure the moment you got your patent.

Mr. BERMAN. Tell me the damage that occurs from disclosure. Forget about the question of whose fault it is that it has not been granted, but tell me the damage that comes from disclosure prior to patent, as long as your date of original filing gives you sort of the advantage over somebody who would come along to try and do something after you had filed.

Mr. CAMPBELL. A brilliant question.

Mr. BERMAN. Brilliant.

Mr. CAMPBELL. A brilliant question and hopefully almost as good answer is because you may not get the patent. Often times, you will put in your patent application. You will begin to worry that you may not be getting your notice, your patent granted which is obviously, more and more likely the longer the Patent Office has been taken looking at this thing.

In which case, you have your common law right to trade secret. But you have blown it if you had to get it disclosed at 18 months. Under the present, you roll the dice. You try for your patent. Things are delayed there. It is not going right.

Mr. BERMAN. You have your common law right to what?

Mr. CAMPBELL. To trade secret. You decide, you know what, I do not think I am going to get this patent. I am going to pull back and try my trade secret route; shop that around. Coco-Cola's formula is an example; never patented; trade secret.

But if you have been forced to disclose it, you then are faced with two dead ends. One, it is no longer trade secret. Two, if your suspicion is right and you are not getting that patent, you have lost. That is the middle case I am addressing.

Mr. BERMAN. Well, Mr. Chairman, all I can think about is the effort I went to in law school to avoid taking any courses dealing with patents, copyrights, and trademarks. And now look where I am.

Mr. COBLE. I will say to the gentleman, I have been there and done that.

Mr. ROHRABACHER. Mr. Berman, for the last two Sessions, this 18-month publication has been a major issue, of course.

Mr. BERMAN. Yes.

Mr. ROHRABACHER. What we have done now, and my hat is off to the chairman on this, is that we were coming at this from two different perspectives. One was on one side we have got to protect the inventor over here.

The other one was we have got to protect society from people who are scamming this system. There are two, I would say, reasonable concerns that we were trying to be addressed, but yet we were going at loggerheads. The chairman, and what he has written out and the proposal he has made, has gone and made the necessary

changes in the law that will prevent anybody from scamming this system.

Mr. BERMAN. But the third factor was, and we have to protect companies from a failure to get protection abroad because we did not comply with an international obligation. That was the third factor in all of that. What you are really saying is the change in the language deals with that problem now. So, it meets that objective.

Mr. ROHRBACHER. The 20-year meets it.

Mr. BERMAN. The 18-month publication is not a part of the obligation.

Mr. CAMPBELL. No.

Mr. ROHRBACHER. No, it is not. GATT requires the term length. Again, the chairman has worked out language that protects the term length. That is really an important factor. As I say, we have narrowed these differences. I would say we have narrowed these differences down to about 90 percent.

Mr. COBLE. I will say there is less hostility and more harmony in the air than was the case 2 years ago.

Mr. ROHRBACHER. Considerably.

Mr. COBLE. For that, I am appreciative and I feel good about the eminent future. The gentle lady from California.

Ms. LOFGREN. Thank you, Mr. Chairman. I walked in just as Mr. Campbell was making his remarks. So, he may have addressed this before I walked in the room. If so, my apologies.

I heard you say that in your judgment that the term of 20 years, or the effective patent term of 17 years solved the submarine patent issue. Could you explain why you think that is true?

Mr. CAMPBELL. You bet. Because the submarine captain, the submarine gamester of one playing this game in the system loses every day that passes another potential day of intellectual property right.

The motivation that works in the present system behind the submarine specialist was the 17 years kicked in from the moment the patent was granted. There was no downside there for it to just stay beneath the surface waiting for Intel, waiting for Hewlett Packard to come along and commercialize it. Now, every day you wait underneath the surface is 1 day less of your patent protection.

Ms. LOFGREN. But when you have product cycles of 9 or 10 months, does that not change your analysis?

Mr. CAMPBELL. Well, it does, but it also changes the—it does not affect the fact that the 18-month disclosure is also irrelevant. The 18-month disclosure is for that reason also, any relevancy. For the real short product cycles, neither the 20-year minus dilatory presumption of 3 years, nor 18 months is relevant.

Ms. LOFGREN. I would concede that. But clearly there are products that require quick product cycles and then there are those in mid-term cycles. I'm concerned that there are very few high-tech companies that would go on for 40 years—at least at this time.

Mr. CAMPBELL. You are totally right. Bear in mind, there is a cost to the 18-month disclosure. That is what I really wanted to put on the table as well. It is really big in high tech because of the short cycle.

If you are forced to disclosed, you will not be able to disclose what may be the only thing you have got of value because you

might—the cycle might go beyond. It might be done by the time you get the Patent Office to act.

Ms. LOFGREN. The other question I had for you was on the prior use protection. I think there are a lot reasons why people might not seek a patent. One of them is cost. Some of our companies have thousands, I mean thousands, and thousands of patents, especially when it goes to industrial processes. That's one consideration.

It can also be very difficult to establish the facts that one needs for a patent. On the other hand, you do want some protection. I am not sure why we would not want to provide this protection. Everyone else including, I mean, Japan and Germany provide prior use protection, especially for industrial processes. Why would we not want to do the same thing?

Mr. CAMPBELL. Because of two reasons in my view. One is that it is contrary to the incentive structure of the patent law to create a strong incentive for people to make use of it because it leads to disclosure, as my earlier colloquy suggested.

If you have a prior commercial use exception, you have got a whale of a large incentive to avoid the patent system and just run with your trade secret for the rest of the life of the product.

Indeed, the way it is written now, you could not only keep your own value for your intellectual property that you chose not to patent, but you could sell it to another company that acquired it, and could then take your production level to a much greater one.

So, the reason why it seems to me is because there is harm from creating a new incentive that would be new in our law not to disclose. I said I had two. The second, and this is my compromise. At the very least, you do not want people making their prior commercial use the crown jewel in an acquisition.

You do not want ma and paw silicone wafer chip company who produces 10 units a month to go on the block and say, buy us because you will then have a prior commercial use grandfathered in, and you can then rip off somebody else's patent, which was the result of their effort and their filing.

Mr. ROHRBACHER. There is one compromise here. By the way, I agree totally with Tom on prior user rights. But there are areas for compromise in this part of the bill. That is, for example, if you would be able to recognize prior user rights for processes and not a product.

As you say, in Europe they have that. So, that is one compromise that we might be able to reach, the compromise in the language. Although, I certainly agree with Tom's opposition to prior user rights in principle.

Ms. LOFGREN. My time is expired.

Mr. COBLE. I thank the lady. The gentleman from Florida.

Mr. WEXLER. Nothing.

Mr. COBLE. Gentlemen, thank you all.

Mr. BERMAN. Yes, Howard, I hate to do this.

Mr. COBLE. That is okay.

Mr. BERMAN. The benefit will be that I will not be around for questions for the next panel.

Mr. CAMPBELL. Little good that does us.

Mr. BERMAN. What is the motivation for a prior commercial user not to have gotten the patent? Is there such an arrogance that no one else will think of the same process?

Mr. CAMPBELL. I have asked and here is the answer I get. I asked the exact same question. These big companies, particularly, have got the fairly efficient operation of patenting. They have it down to a science.

Mr. BERMAN. Some, rather reckless.

Mr. CAMPBELL. Maybe so.

Mr. BERMAN. But why? What is their motivation?

Mr. CAMPBELL. Some choose not to and the only answer that I have got is that they produce so many possibly patentable incorporation of ideas into art, that they just do not do it. They have other fish to fry; patents that they think are more important. A smaller firm, they believe, they allege, does not have that multiplicity of patentable ideas, and will then, possibly by luck, have the one that they previously invented, but just did not file.

My answer when I heard this—I heard this from a large wafer chip company in our District. It was actually two syllables. I said, I just do not have sympathy for that argument. You are big boys.

If you find it burdensome not to file an idea and it turns out somebody else had the same idea, independently came up with, because if it was not independent you could not do it, and they did use the patent system, then they get the prize. That is your fault for not having pushed it.

Mr. ROHRBACHER. I have received a little bit different answer on that. There are some people that I know that put a lot of time, energy and money into inventing something and they just do not trust the Patent Office and the patent system anymore to protect their interests and to be able to do—and the protection that were being offered 20 and 30 years ago.

That is why it is so important that we have a new patent bill to make sure that the Patent Office is working and that is where we were always together in that. That was something that unfortunately because of some areas of disagreement that we had trouble jumping over those hurdles, we have left the real business of making sure the patent office is able to do its job and it is effective.

It has really gone downhill, I believe, in the last 10 and 15 years. I think that Chairman Coble's bill, as long as we can work out this last little 10 percent, I think is going to go a long way to deterring people from going to trade secrets because we are going to restore the Patent Office to their ability to do their job.

Mr. COBLE. The gentleman from Indiana.

Mr. PEASE. Thank you, Mr. Chairman. My apologies to the members of the committee and the panel for tardiness due to multiple, simultaneous hearings.

Even though I have some background in this area from my prior practice, I know when I am over my intellectual head with the panel that we have before us. However, I am smart enough to realize that and therefore I am going to pass on my questions.

Mr. COBLE. We will continue to work with you all. We would be glad for you to say around, if your time permits. We have interesting witnesses who will follow you all. We thank you all for being with us, Dana and Tom.

We will bring forward our next witness. Our Government witness this afternoon will be the Honorable Todd Dickinson, who was nominated by President Clinton to the position of Deputy Assistant Secretary of Commerce and Deputy Commissioner of Patents and Trademarks on February 26, 1998.

He was unanimously confirmed by the United States Senate on June 18th of last year, and sworn in on June 23rd of last year. He became Acting Assistant Secretary of Commerce and Acting Commissioner of Patents and Trademarks on January 1st of this year.

Mr. Dickinson is an active member of numerous professional associations, including the American Bar Association, the American Intellectual Property Law Association, the International Trademark Association, and the Copyright Society of the United States.

Mr. Dickinson earned a B.S. degree in Chemistry from Allegheny College in 1974, and a J.D. from the University of Pittsburgh's School of Law in 1977. He is a member of the Bars of Pennsylvania, California, and Illinois and has practiced law in the private sector. The subcommittee has confidence in Mr. Dickinson's testimony which, without objection, will be made a part of the record. Mr. Dickinson, we are delighted to have you with us today. If you could be ever mindful of the red light, we will be appreciative.

STATEMENT OF TODD DICKINSON, ACTING ASSISTANT SECRETARY OF COMMERCE AND ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, U.S. PATENT AND TRADEMARK OFFICE

Mr. DICKINSON. Thank you, Mr. Chairman and members of the committee. Thank you for providing me this opportunity to present the views of the administration on the Committee Print of the American Inventors Protection Act and H.R. 1225. We appreciate your support of this important legislation and for calling this hearing.

Although I am relatively new to this position, I have worked as an intellectual property practitioner for over 20 years. I know that this subcommittee has been at the forefront of reshaping America's intellectual property system for the 21st Century.

So, I come before you for the first time with admiration for the work you have done and a commitment to work with you. Mr. Chairman, let me also say for the record, since this is my first appearance before the subcommittee and if I could paraphrase a great American, I hope you will find that I am an easy dog to hunt with, Mr. Chairman.

Mr. COBLE. Thank you, sir. You flatter me.

Mr. DICKINSON. The issues before us today were the subject of substantial consideration in the last two Congresses and were passionately debated. Thanks to your leadership omnibus legislation passed the House.

Unfortunately, a consensus could not be reached on the Senate side. We at the PTO want to work with the subcommittee to build a consensus and improve the strongest and most efficient patent system in the world. To that end, the PTO recently sponsored a round table discussion on possible legislative initiatives to modify the patent system.

The session exceeded expectations in that the discussions revealed agreement on certain issues and avenues for agreement on others. I hope that discussions among all of the interested parties will continue toward a positive result.

I also want to acknowledge the valuable contribution made by Congressman Rohrabacher and his staff to this very constructive process and also thank Congressman Campbell for his interest. We look forward to meeting with him.

I firmly believe that working together we can all craft a bill that will be enacted during the 106th Congress. This hearing, Mr. Chairman, serves as an excellent starting point. Let me now turn to the Committee Print and Reauthorization Bill before us.

Mr. Chairman, the administration supports title I. It would help reduce the number of instances in which inventors are cheated out of their hard earned money and robbed of their dreams by fraudulent invention promoters.

These scams rake in more than \$200 million a year and are targeted at those who can afford it the least: independent inventors. Your Committee Print's mandatory contract disclosures, reporting procedures, and penalty provisions would go a long way toward addressing this serious problem.

With regard to title II, the administration has previously supported the concept of a defense to infringement based on first to invent. We also appreciate, however, that this proposal has been the source of substantial concerns. We look forward to working with you to craft provisions that would appropriately address those concerns and hopefully create a defense that is fair to all interested parties.

While we understand and appreciate the concerns which prompted the drafting of the Patent Term Guarantee Title, we do have some concern that it may turn what used to be a fairly simple process, possibly into an overly complex and burdensome one.

What may occur, for example, is a potentially large increase in the number of petitions coming into the office resulting in a detrimental impact on our smooth operation. We want to work closely with the subcommittee to simplify and clarify some of the more technical aspects of these provisions.

With respect to title IV, the administration has previously supported publication at 18 months of patent applications, except those that are withdrawn or subject to a secrecy order.

Title IV of your Committee Print would make a change in a positive direction, enabling the U.S. public to review, in English, those patent applications pending after 18 months that were filed both in the U.S. and a foreign country. American inventors would be able to learn of technological advances more quickly and thereby avoid duplicating the efforts of others; something their foreign counterparts already do.

Mr. Chairman, in addressing the concerns of opponents of the previous legislation though, it is also important to note that title IV does contain additional safeguards, provisional rights, which would provide fair royalties, for pre-grant commercial use.

Mr. Chairman, we support Title V, the Patent Litigation Reduction Act. Our current reexamination procedures provide a low-cost alternative to litigation to confirm the validity of a patent. Im-

provements in this title will benefit all patentees especially small entities who often do not possess the resources to engage in costly and time-consuming litigation. However, we want to work with the subcommittee to ensure that this title provides appropriate safeguards against possible abuse.

Mr. Chairman, with respect to title VI, we salute you for your continued leadership on this issue. We do, however, urge you and this subcommittee to consider the administration's approach to helping the PTO operate more efficiently.

As indicated in the President's fiscal year 2000 budget, the administration is developing legislation to establish the PTO as a performance-based organization or PBO. We will share that legislation with you in the very near future and look forward to working with you to craft language that will produce an efficient, cost-effective organization to carry us into the 21st Century.

Turning to the Reauthorization bill, I want to thank you for your continuing efforts to ensure that PTO has the appropriate resources to do its job. The President's budget proposal would authorize the PTO to charge and collect additional fees sufficient to cover costs associated with certain retirement benefits of PTO employees.

As H.R. 1225 would prohibit such additional fees, we would oppose the bill as currently drafted. We are willing to work with the subcommittee to address concerns about imposing unnecessary costs on our users. We continue to believe that the PTO needs to be a self-sufficient agency. We will work with you, of course, on this issue as the appropriations process continues.

Thank you again, Mr. Chairman, for the opportunity to testify on this important legislation.

[The prepared statement of Mr. Dickinson follows:]

PREPARED STATEMENT OF TODD DICKINSON, ACTING ASSISTANT SECRETARY OF COMMERCE AND ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, U.S. PATENT AND TRADEMARK OFFICE

SUMMARY

Committee Print + "American Inventors Protection Act"

The Administration supports Title One. It would help reduce the number of instances in which inventors are cheated out of their hard-earned money and robbed of their dreams by fraudulent invention promoters. The Committee Print's mandatory contract disclosures, reporting procedures and penalty provisions would go a long way toward addressing this serious problem.

With regard to Title Two, the Administration has previously supported the concept of a defense to infringement based on "first to invent" and also appreciates, however, that the proposal has been the source of substantial concerns. The Administration looks forward to working with the Subcommittee to craft provisions that would appropriately address those concerns and hopefully create a defense that is fair to all interested parties. The Administration also wants to work with the Committee to clarify that the Government would be able to avail itself of the defense.

While the Administration understands and appreciates the concerns which prompted the drafting of the "Patent Term Guarantee" Title, it has some concern that it may turn what used to be a fairly simple process into an overly complex and burdensome one. What may occur, for example, is a potentially large increase in the number of petitions coming into the Office, resulting in a detrimental impact on the smooth operation of the patent system. The Administration wants to work closely with the Subcommittee to simplify and clarify some of the more technical aspects of these provisions.

With respect to Title Four, the Administration has previously supported publication at 18 months of all patent applications, except those that are withdrawn or subject to a secrecy order. Title Four would make a change in a positive direction, enabling the U.S. public to review, in English, those patent applications, pending after

18 months, filed both in the U.S. and a foreign country. American inventors would be able to learn of technological advances more quickly and thereby avoid duplicating the efforts of others, something their foreign counterparts already do. It is important to note that Title Four contains safeguards + provisional rights + providing fair royalties for pre-grant commercial use.

The Administration supports Title Five, the "Patent Litigation Reduction Act." Our current reexamination procedures provide a low-cost alternative to litigation to confirm the validity of a patent. The improvements in this title will benefit all patentees, especially small entities who often do not possess the resources to engage in costly and time-consuming litigation. However, the Administration wants to work with the Subcommittee to ensure that this Title provides appropriate safeguards against abuse and addresses recent court decisions such as *Portola Packaging*.

With respect to Title VI, the Administration urges the Subcommittee to consider the Administration's approach to helping the PTO operate more efficiently. As indicated in the President's Fiscal Year 2000 budget, the Administration is developing legislation to establish the PTO as a Performance-Based Organization or PBO. The Administration will share that legislation with the Subcommittee and looks forward to working with the Subcommittee to craft language that will produce an efficient, cost-effective organization to carry us into the 21st Century.

H.R. 1225

The President's Budget proposal would authorize the PTO to charge and collect additional fees sufficient to cover costs associated with certain retirement benefits of PTO employees. H.R. 1225 would prohibit such additional fees and the Administration opposes H.R. 1225 in its current formulation. The Administration continues to believe that the PTO needs to be a self-sufficient agency and will, of course, work with the Subcommittee on the issue as the appropriations process continues.

STATEMENT

Mr. Chairman and Members of the Committee:

Thank you for providing me with this opportunity to present the preliminary views of the Administration on the Committee Print of March 18, 1999, the "American Inventors Protection Act," and H.R. 1225, the "United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2000," as introduced on March 23, 1999. The Administration is reviewing these recent drafts and may have further comments on them. We appreciate your support of this important legislation and your calling this hearing.

Proposals to reform patent law and the Patent and Trademark Office's (PTO) operational authority were the subject of substantial consideration in the last two Congresses and were debated under unprecedented scrutiny. Thanks to your leadership, omnibus legislation passed the House. Unfortunately for the process, a consensus leading to enactment could not be reached on the Senate side.

We at the PTO want to work with the Subcommittee to build a consensus and improve what we believe is the strongest and most efficient patent system in the world.

To that end, this past January the PTO sponsored a round table discussion on possible legislative initiatives to modify the patent system, in particular those which were addressed in the previous Congresses. Attendees included Congressional staff and representatives from PTO's many diverse constituencies including independent inventors, intellectual property trade associations, universities and large and small business interests. The group was carefully balanced between supporters and opponents of the previous legislation. The purpose of the full-day round table discussion was not to reach any particular consensus, but to provide a forum for an open and frank discussion on the important issues before us. That is exactly what happened. The session was widely regarded as exceeding expectations as the discussions revealed agreement on certain issues and avenues for agreement on other issues where any agreement seemed unlikely. I hope that discussions among all the interested parties will continue toward a positive result. And in this regard, I certainly want to acknowledge the valuable contribution made by Congressman Rohrabacher and his staff to this constructive process.

I firmly believe that, working together, you and other interested Members of Congress, the Administration and parties representing our user groups, both large and small, can craft a bill that will reach the President's desk during the 106th Congress. Holding this hearing, Mr. Chairman, serves as an excellent starting point.

I would now like to discuss the provisions of the bills and, where appropriate, suggest improvements that the Administration believes would achieve our common goals of increasing productivity and cost effectiveness and delivering the best quality service to our customers.

COMMITTEE PRINT

Title I

One of the greatest threats to the integrity of our process is the proliferation of so-called invention promotion or marketing organizations. There can be little doubt that the scandalous invention marketing schemes are among the greatest problems faced by the independent inventor and very small business concerns. Raking in more than \$200,000,000 each year—most often from those who can least afford it—these fraudulent firms do more than simply take the inventors' money; they rob them of their hopes and dreams. The damage to America wrought by these firms goes to the heart of our free enterprise system, and serves to depress and discourage one of our most unique sources of new ideas.

Far worse, because of limitations on our authority, the PTO and even the FTC have been less effective than we would like and remain under-equipped to address this problem, which grows every year. Title I of the Committee Print, the "Inventors' Rights Act," would give us additional tools to help ensure that inventors have a cause of action against unscrupulous invention promoters who collect a good deal of money up front from their inventor clients but deliver little in the way of service. Title I would require all invention promoters to provide clear written contracts stating plainly what invention promotion services are to be provided and at what cost.

Mr. Chairman, the Administration strongly supports your efforts to craft provisions to help reduce the number of instances in which inventors are cheated out of their hard-earned money and robbed of their dreams by fraudulent invention promoters. Agents in other fields, literary agents for example, generally collect their money after they have performed services for their clients. Their fees often comprise a certain percentage of the earnings their activities generate for the client, and they report regularly to the clients on activities undertaken on their behalf. This title would hold invention promoters to similar standards.

As in other areas known to have problems with consumer fraud, clients of invention promoters would be given a cooling-off period of five business days during which they could cancel the contract by letter. Invention promoters would have to inform customers of the right of cancellation in the contract and in a conspicuous cover sheet to the contract in clearly legible, bold-face type. The cover sheet also would have to provide facts about the number of inventions evaluated by the company, the number of positive and negative evaluations given, the number of contracting customers in the previous five years and the number of those customers who had earned more than the fees paid as a result of the work performed by the company. Finally, invention promoters would be required to report to their clients regularly regarding work done to promote the client's invention and the results of that work. Failure to fulfill these conditions could form the basis of a civil suit, if the customer later learned that he or she had been paying for services that were not provided.

The Administration supports the concept of providing inventors with sufficient information to enable them to make an informed decision as to whether to retain an invention promoter. We also are considering the concept of a cause of action against those who fail to provide mandated information or commit fraud. We have some suggestions regarding this title as proposed, and look forward to working with you and the Subcommittee to craft provisions that will help inventors protect themselves from unscrupulous opportunists who are interested only in the inventors' money, not in developing their inventions.

Title II

The Administration has previously supported the concept of a defense to infringement based on "first to invent" and we understand and appreciate that the proposal has been the source of substantial concern. While we think there are significant, legitimate and often troublesome concerns which need to be addressed, we look forward to working with you to craft provisions that would appropriately address those concerns and hopefully create a defense that is fair to all interested parties.

If enacted, title II, the "First to Invent Defense Act," would provide a defense against charges of patent infringement for a party who had, in good faith, actually reduced the subject matter to practice at least one year before the effective filing date of the patent, and commercially used the subject matter before the effective filing date. "Effective filing date" would mean the filing date of the earliest filed application relied upon in the application which resulted in the patent.

The "first to invent" defense would be available so long as the party asserting it did not derive the subject matter he or she was exploiting commercially from the patentee or anyone in privity with the patentee. The defense would apply only to the subject matter in dispute and would not give the party a general license to use

all of the technology claimed in the patent. The defense, if upheld, also would not in itself cause a patent to be deemed invalid either under the bars to patentability of section 102 of the patent law or as non-obvious under section 103.

Finally, we wish to work with the Committee to incorporate the requisite technical amendments to clarify that the Government also would be able to avail itself of the defense.

Title III

The Administration continues to review the provision of title III, the "Patent Term Guarantee Act." This title would extend the term of patents to compensate for certain processing delays specified in an amended paragraph (b)(1)(A) of section 154, and for delays in the prosecution of applications pending more than three years. In addition, extensions will be available for delays in issuance of a patent due to interference proceedings, secrecy orders, and appellate review. Extensions for delays listed in paragraph (b)(1)(A) and for appellate review would be limited to ten years. All other extensions would be calculated on a day-for-day basis without limitation. This is an undesirable departure from current law, which provides a maximum five-year extension for delays in issuance due to secrecy orders and appellate review.

We would hope that any provisions under this title would be crafted in such a manner as to minimize administrative burdens on the PTO and provide sufficient lead-time for implementation. We are currently reviewing the potential impact on our operations if we were to implement this title as proposed, and will share our findings with you in the near future.

While we understand and appreciate the concerns which prompted the drafting of this Title, we have some concern that it may take what used to be a fairly simple process, calculating patent term, and possibly render it into an overly complex and burdensome one. From the PTO's perspective, what may occur is a potentially large increase in the number of petitions coming into the Office, placing significant administrative burdens on the PTO, and resulting in a detrimental impact on the smooth operation of the patent system. We believe that it would be advantageous for the PTO to work closely with this subcommittee to simplify and clarify some of the more technical aspects of these provisions.

We also would note that the Administration cannot support an unlimited extension resulting from delays in grant as a result of interference proceedings. We should instead strive to streamline the interference process to eliminate delays, rather than provide for unlimited extensions of the term to compensate for them.

Title IV

Mr. Chairman, provisions for the early publication of patent applications have been hotly debated for many years. It is my hope that PTO efforts toward reduced cycle time and other efficiencies will, in the near future, obviate the need for any early publication prior to grant. For example, we are committed to improving our services by hiring 700 new examiners this year as well as in 2000 (in addition to the 720 examiners hired in 1998), providing additional databases to examiners, providing assistance in automated searching and freeing up patent examiners from non-examination duties. We are also working to process all Patent Cooperation Treaty applications electronically; convert to electronic format all incoming U.S. paper patent applications; electronically classifying incoming patent applications to Technology Centers; performing electronic patent "pre-searching;" and electronically accessing patents issued by the European and Japanese Patent Offices.

Title IV, the "Publication of Foreign Applications Act," would make important substantive changes to our patent law. It would provide for publication of patent applications 18 months after filing unless the applicant were to certify upon filing that the invention was not and would not be the subject of an application filed in a foreign country. This title also would provide provisional rights to patentees to obtain reasonable royalties if others make, use, sell or import the invention during the period between publication and grant; provide a prior art effect for published patent applications; require a GAO study on applicants filing only in the United States; and authorize fee adjustments to recover the cost of early publication.

The Administration has previously supported early publication at 18 months of all patent applications, except those that are withdrawn or subject to a secrecy order. As early as 1966, President Johnson's Commission on the Patent System recommended, among other things, publication of patent applications after 18 months. More recently, President Bush's Secretary of Commerce established a Commission on Patent Law Reform that recommended, among other things, early publication of patent applications. In spite of these recommendations over the past 30 years, the law still requires that patent applications be kept from the public until a patent

issues. If a patent does not issue, the information contained in the application is never made public unless the applicant chooses to do so.

The primary reason for support of early publication of patent applications is that, under current laws, foreign companies have the advantage of reviewing, in their own language, technology claimed in patent applications 18 months after those applications are filed in their countries. American companies and inventors do not enjoy this benefit.

Title IV would make a change in a positive direction, enabling the U.S. public to review, in English, those patent applications, pending after 18 months, filed both in the U.S. and a foreign country. Since applications from foreign applicants make up approximately 43% of all patent applications received by the PTO, it is worth noting that foreign origin applications would be published in the U.S. 18 months after their foreign filing date, which would generally be 6 months after they are received by the PTO and at the same time they are published abroad.

Proponents of early publication have effectively argued that such publication fulfills the Constitutional objective of the patent power: to promote the useful arts. Early publication of patent applications allows people to learn of technological advances more quickly and thereby avoid duplicating the efforts of others.

However, in addressing the concerns of opponents of the previous legislation, it is important to note that Title IV contains safeguards to ensure against use of published information by unauthorized parties. It would provide provisional rights following publication of an application. Anyone who used an invention prior to the time the patent was granted would be liable for reasonable royalties for the period from publication until the patent's grant and, of course, would be subject to normal penalties for patent infringement upon grant. The availability of provisional rights would, however, be conditioned upon a claim in the published application being "substantially identical" to a claim in the patent. Since this would be a fairly strict standard to satisfy, the provisional protection accorded may need to be strengthened.

Section 405 of title IV would also add to the bars to patentability, contained in section 102 of title 35, United States Code, provisions dealing with published applications. Section 405 would also amend section 102 to expand the prior art effect of granted patents. This expansion of effect has not been widely discussed in the U.S. and we look forward to a full discussion of the matter as the legislative process continues.

Title V

Title V, the "Patent Litigation Reduction Act," is appropriately named and is strongly supported by the Administration. Our current reexamination procedures provide a low-cost alternative to litigation to confirm the validity of a patent. An improved reexamination system will provide a better, low-cost alternative to litigation. These improvements will inure to the benefit of all patentees, especially small entity patentees who, often, do not possess the resources to engage in costly and time-consuming litigation.

This title would expand the role of a third-party requester in reexamination proceedings. Further, the changes proposed would make reexamination a more effective and, therefore, more attractive option for resolving questions of patent validity, many of which are now handled by the courts.

Title V would provide limited, yet meaningful, participation by third-party requestors through a reexamination proceeding resulting from their request. The third-party would be served with copies of any papers submitted by the patentee during reexamination proceedings and would have an opportunity to submit written comments within a reasonable time. Third-party requestors also would be given a right of appeal from a final decision of the PTO in favor of the patent owner.

To help protect against abuse, however, Title V also would create a statutory estoppel against further litigation of patent validity questions by a third-party, after the party seeks and obtains judicial review of the PTO's determination in their case.

The Administration would be pleased to work with the Committee staff to ensure that Title V, in addition to the changes proposed, addresses several recent court decisions, such as *Portola Packaging*, that have adversely affected the effectiveness of reexamination proceedings.

Title VI

Title VI, the "Patent and Trademark Office Efficiency Act," would establish the PTO as an independent agency, separate from any department of the U.S. Government, but under the policy direction of the Secretary of Commerce.

Mr. Chairman, while we again salute you for your continued leadership on this issue, we urge you and the Subcommittee to consider the Administration's approach

to helping the PTO operate more efficiently as a Performance Based Organization (PBO) within the Department of Commerce.

As indicated in the President's Fiscal Year 2000 budget, the Administration is developing legislation to establish a number of PBOs including the PTO. Implementation of the PBO concept is intended to help selected Government agencies function more efficiently and effectively and better serve their customer base. The PTO-PBO legislation would encourage PTO executives to bear greater responsibility for the PTO's level of performance. The executives would receive bonuses if they were successful in meeting tough annual performance goals established in performance agreements with the Secretary of Commerce. To aid them in achieving those goals, the executives would be empowered with greater flexibility in hiring, compensation and procurement.

The PTO's operations make it a good candidate for conversion to a PBO. PTO functions in a business-like manner and is completely funded by fees paid by the users of our services and products + patent applicants and owners and trademark applicants and owners. In addition, most of the service functions of the PTO are measurable. Standards of quality and quantity can be set and the organization's performance evaluated using those standards as yardsticks.

That said, however, I must note that there is a significant difference between the Administration's vision of the structure of the organization and the structure that would be created by the bill. The Administration would like to see the PTO transformed into a PBO, taking into account the particular nature of PTO, as well as the lessons learned from enacted PBOs. In the Administration's vision, the PTO's policy making functions in relation to intellectual property would remain part of the Department of Commerce, under the direction of an Under Secretary for Intellectual Property, who would be appointed by the President with the advice and consent of the Senate. Such an arrangement would help ensure that the inherently governmental policymaking functions of the Under Secretary are placed clearly under the supervision of the appropriate Cabinet Department. It would also help ensure that intellectual property issues are considered as an integral part of each Administration's programs, as the Under Secretary would, through the Secretary, advise the President on both domestic and international intellectual property matters and ensure that these important issues are part of Cabinet deliberations. Finally, the arrangement would help ensure that each Administration's objectives and priorities are reflected in the preparation of any intellectual property legislation and in international negotiations involving intellectual property.

We look forward to working with you to craft language that will produce an efficient, cost-effective organization to carry us into the 21st Century.

Title VII

Title VII contains miscellaneous changes to our patent system. Subject to certain amendments of a technical nature, the Administration generally supports these provisions. We would be pleased to work with the Subcommittee staff to include a number of other items of a miscellaneous or technical nature that would help streamline procedures in the PTO and benefit our customers.

H.R. 1225

Mr. Chairman, we are concerned that the PTO Reauthorization bill differs from the approach taken in the President's FY 2000 Budget proposal. The President's Budget proposal would authorize the PTO to charge and collect additional fees sufficient to cover the accruing indirect personnel costs associated with post-retirement health and life insurance of PTO employees. As H.R. 1225 would prohibit such additional fees, we would oppose the bill as currently drafted, but we are willing to work with the Subcommittee to address concerns about imposing unnecessary costs on our users. We continue to believe that for the PTO to be a truly self-sufficient agency, it needs the authority proposed in the President's Budget. We will, of course, work with you on this issue as the appropriations process continues.

Mr. COBLE. Commissioner, you are indeed an easy dog to hunt with. You almost beat the red light.

Mr. DICKINSON. Thank you. I tried. I really tried.

Mr. COBLE. Good to have you with us. Commissioner, why is it important for the Patent and Trademark Office to function in some operational respects not unlike a performance-based organization? How is the PTO different from most other Government agencies?

Mr. DICKINSON. Well, it differs I think in large part because we are very much like a regular business. We take in revenue. We

produce a product. We produce patents and trademark registrations. We are also fully fee funded. All of the money that comes to us comes from our fee payers.

So, we believe that this would make the PTO a good candidate for a performance-based organization. We can measure the kind of work that we do, the quantity and quality of that work against certain performance measures. We could arrive at performance agreements which allow us to monitor, measure, and incent better performance, more efficient and effective performance of our staff and of our managers.

It would also provide us some greater flexibility than the current statutory systems and rule systems allow in the Federal Government, particularly in the areas of hiring, compensation, and procurement, which are very difficult. So, we are hopeful of addressing those in our legislation and appreciate your interest as well.

Mr. COBLE. Some people, perhaps many people, who use your agency are weary of a possible creation of another surcharge. You will recall, Commissioner that the surcharge, I think it was imposed or enacted in 1990, expired last year. We elected not to renew it.

We furthermore reduced the patent fees, you may remember. I guess by implication, I am saying I agree with those folks who are wary why Commissioner can we not use the rather sizeable surplus, about \$160 million I think, carried over from fiscal year 2001 to be used to fund the health benefit programs?

Mr. DICKINSON. Mr. Chairman, we are, as I mentioned, the only fully fee funded agency in the Federal Government. That is my understanding. It is very important that we have a commitment to the Vice President and the President to align our fees with our costs.

We have been asked and the administration has proposed that we have a pilot program which would have this surcharge to take up these retirement benefits. As I mentioned, I think all of us agree that it would be appropriate if the PTO was able to keep the fees that are paid to it.

Along with that, however, comes the obligation to make sure that we also pay those liabilities that accrue. That \$20 million was previously paid by OPM. It was not paid by us. This would cause it now to be paid out of our funds. Why it would not come out of the carryover? That carryover serves several purposes for us.

First of all, it represents work that has already been done; work that is going to be paid for, rather, in the future. Fees get paid up front in many cases and need to be amortized into the future.

We also need to make sure that we have appropriate revenue for our Space Consolidation Program and our IT infrastructure.

Mr. COBLE. And then we will continue dialogue on this. Regarding the Committee Print, Commissioner, to safeguard the ability of the PTO to secure a new facility to serve its many users, and this has been ongoing for some time, as you know, is it progressing favorably?

Mr. DICKINSON. We think it is, Mr. Chairman. We certainly appreciate yours and the committee's support on this project. As you know, we have a very significant space problem at the moment. We

are spread out over 18 buildings in Crystal City, almost a mile and a half from one end to the other.

Where it stands at the moment is we are anticipating that the lease award will be made later this spring. We have reached substantial agreement with all of our unions now, for example. We anticipate that the Procurement Panel, who is the body that is formally charged with making this lease award, will do that later this spring.

Mr. BERMAN. You have a few problems with homeowners in Alexandria.

Mr. DICKINSON. We have a couple of issues; challenges we like to think of them, Congressman. We have had litigation filed by our current landlord, both in the Eastern District of Virginia and here in the District of Columbia.

The litigation was filed in Virginia alleging that we have not provided all of the information that was needed for one of the bidders, that is our current landlord, who is still one of the three remaining bidders, to make the best offer that they needed to make.

That is called a POR, Program of Requirements. The judge asked us to provide that to all of the bidders and enjoined the process from going forward briefly while we did that. We will provide that in a couple of weeks.

[The information referred to follows:]

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INTRODUCTION

A. Background

Pursuant to Solicitation for Offers (SFO) No. 96.004, the General Services Administration (GSA), as agent for the United States Patent and Trademark Office (PTO), is competitively procuring approximately 2 million occupiable square feet of office and related space for PTO's consolidated headquarters needs for the next 20 years. This Program of Requirements (POR) document has been developed, consistent with Section D.2.1 of the SFO, to define the Government's comprehensive interior architectural program of requirements for the interior build-out of the consolidated facility. In accordance with the SFO, this POR provides a detailed description of the number and size of spaces required for the Joint-Use spaces, distributed spaces, office spaces and support spaces. The POR includes adjacency requirements and prototypical space layouts for standard office types and support spaces.

Consistent with the SFO, the Lessor will be required, after award, to perform a Program Verification of the POR and to produce a Space Analysis, Universal Plan and related budget for the Fit-Out of the entire Facility. The Lessor is responsible for carefully integrating the Base Building and Fit-Out work, and will schedule the Base Building construction such that all Base Building construction is completed to an appropriate level before Fit-Out construction begins. Consistent with the SFO, the Government will work closely with the Lessor, in an integrated manner, to review and approve the Lessor's design and construction of the Facility. Government reviews will seek to identify potential design flaws, minimize costly misdirection of effort, and assist the Lessor in fulfilling its sole responsibility to continually monitor whether its design and construction comply with Applicable Laws and satisfy Lease requirements, including the Government's POR and the Government's desire to receive high-quality Fit-Out in a manner that is within the applicable budget and schedule.

B. Structure of the POR

The POR is divided into three sections, as follows:

1. **Space Breakdown and Adjacency Listing**, which sets forth the PTO's space allocation standards; the amount of closed office/workstation and support space the various PTO organizations require; and the amount of distributed and Joint-Use space the agency requires.
2. **Tenant Space Construction Standards**, which detail the Fit-Out of the facility.
3. **Prototypicals**, to aid in programming closed office/workstation, support and Joint- Use space.

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D. Abbreviations/Acronyms

The abbreviations/acronyms on the following pages are used throughout the Program of Requirements.

Abbreviation/Acronym	Organization
ECC	Call Center and Marketing Services Program
CMSG	Customer and Marketing Services Group
CSP	Customer Services Program
GSA	General Services Administration
A/IDO	Immediate Office of the Administrator- Information Dissemination Organization
IG	Inspector General
IDO	Information Dissemination Organization
NLSG	National Library Services Group
OAS	Office of Administrative Services
OPTI	Office of Patent and Trademark Information
OPR	Office of Public Records
OSA	Office of Space Acquisition
OLPP	On-Line Publishing Program
OPP	Optical Publishing Program
PTDDP	Patent and Trademark Data Dissemination Program
PTDLP	Patent and Trademark Depository Library Program
PTO	Patent and Trademark Office
PCT	Patent Cooperation Treaty
PSF	Public Search Facility
PSSP	Public Search Services Program
STIC	Scientific and Technical Information Center
TAFP	Technology Assessment and Forecast Program
TSG	Technology Services Group

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Abbreviations/Acronyms Continued

Abbreviation/Acronym	Technical Term
AFF	Above Finished Floor
ADA	Americans with Disabilities Act
CAHU	Computer Air Handling Unit
CCTV	Closed Circuit Television
CADD	Computer Aided Design and Drafting
COR	Contracting Officer's Representative
CFM	Cubic Feet per Minute
DDT	Development Design Team
DCF	Distributed Computer Facility
EPO	Emergency Power Off
EPS	Emergency Power Supply
Fc	Foot candle
GFI	Ground Fault Interrupt
HVAC	Heating, Ventilation and Air Conditioning
LAN	Local Area Network
MDF	Main Distribution Frame
MAP	Metropolitan Architects and Planners
NRC	Noise Reduction Coefficient
PDU	Power Distribution Unit
POP	Point of Presence
PVC	Polyvinyl chloride
POR	Program of Requirements
CHURN	Recurring construction and furniture costs associated with organizational changes
SFO	Solicitation for Offers
STC	Sound Transmission Coefficient
SF	Square foot/feet
SPE	Supervisory Patent Examiners
TED	Telephone, Electrical and Data outlet Configuration
UPS	Uninterrupted Power Supply
VAV	Variable Air Volume
VAC	Volt Amp Circuit
TBD	To be determined

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SPACE BREAKDOWN AND ADJACENCY LISTING**A. Modular Space Planning Approach**

The PTO has adopted a modular approach to space planning and design in order to promote easy, cost-effective reuse and reassignment of the agency's space over the term of the Lease. Space allocation standards in the POR are all based on a 5'-0" planning module. These standards are structured as interchangeable units. This permits multiple uses of same size spaces.

B. Space Types

The occupiable space at the consolidated facility is divided into four basic categories of space use:

1. Closed Office and Workstation Space
2. Support Space
3. Distributed Space
4. Joint-Use Space

The POR employs two primary closed office sizes: 120 SF and 150 SF. Most other workstations, office support areas, and distributed spaces are sized as dimensional derivatives of these two closed office sizes. Joint-Use Spaces are sized based upon their special-purpose use.

C. Allowance for Layout Factors

In order to generate an interior dimension which is as close as practicable to the square footage standard that has been established for each space type, the standards that are identified in the POR account for space required for wall footprints and other layout factors. Therefore, for space planning/programming purposes, the POR indicates that 150 SF closed offices should be programmed at 155 SF and 120 SF closed offices should be programmed at 125 SF. This approach is dictated by agreements with the PTO's three employee bargaining units. For example, per agreement with the Patent Office Professional Association, 150 SF closed offices occupied by bargaining unit members shall include no less than 145 SF of actual space.

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D. Circulation

The POR applies primary and secondary circulation factors to the square footage allocated for Office/Workstation, Support, and Distributed Space. The resulting square footage is allocated to primary or secondary circulation, as applicable. For Joint-Use Spaces, secondary circulation is accounted for in the space allocation; and a primary circulation factor is then applied to this total.

Circulation factors used in the POR are based on a combination of (i) the PTO's experience with space layouts at its current facilities, and (ii) a review of the GSA's 1994 publication entitled *Space Utilization Study: An Examination of Primary and Internal Circulation in Federal Office Space: A Guideline to Space Programming Multipliers*.

E. Space Allocation Guidelines

1. Closed Office & Workstation Standards

Two closed office standards have been established, based on agreements reached with the PTO's bargaining units: **150 SF** and **120 SF**. All open systems furniture workstations and other closed office sizes are dimensional derivatives of these two basic closed office standards.

For space programming and design purposes, placement of closed offices should maximize use of perimeter space; and closed offices should be planned with blocked sight lines wherever possible. To allow natural light to penetrate interior spaces, where practicable, interior walls should be designed utilizing clerestories.

Organizationally, the office and workstation standards are as follows:

Office of the Assistant Commissioner for Trademarks:

120 SF Closed Private Office	Attorneys and Professionals
80 SF Open Workstation	Technical Support Staff

All Other PTO Offices:

150 SF Closed Private Office	Professionals GS-13 and above
150 SF Closed Shared Office-2 per office	Professionals GS-12 and below
75 SF Open Workstation	Technical Support Staff

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2. Support Space Standards

Support Space is assigned to a particular organization to house that organization's common functions. Square footage standards for the various support spaces are dimensional derivatives of the planning module.

For space programming and design purposes, these support spaces should be placed on the interior of a building floorplate, whenever possible. File rooms and library/reference areas should be planned for that portion of the building floor which is capable of supporting a live load of 150 lbs./SF.¹

In the POR, Support Space is categorized according to the following functional uses, each of which is identified by the assigned abbreviation(s):

- a. Contractor Room-CT
- b. Coat Closet-CC
- c. Electronic Information Center-EI
- d. Equipment Room-EQ, ZP
- e. File Room- FH, FK, FL, FO, FX
- f. Hearing Room-HR
- g. Holding Area-HA
- h. Information Technology Rooms (Other than Distributed Computer Facility & LAN rooms)-IT
- i. Lab-LA
- j. Library/Reference Room-LH, LO
- k. Mail Stations-MA
- l. Multipurpose Room-MP
- m. Team Room-MT
- n. Processing Room-PR
- o. Service Room-PW
- p. Reception Area-RA, RC
- q. Storage Rooms- SC, SE, SL, SO, SS
- r. Waiting Room-WT
- s. Miscellaneous Rooms- ZA, ZB, ZE, ZH, ZI

3. Distributed Space Standards

The PTO has developed standards for Distributed Spaces, which will be shared by all office personnel housed on a given floor or, for some spaces, in a building. Square footage standards for these Distributed Spaces are also derivatives of the planning module.

¹ Further analysis may be required to determine whether, in some instances, additional floor load capacity is required to comply with Applicable Law.

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For space programming and design purposes, Distributed Spaces should be placed on the interior of a building floorplate where possible, proximate to the building core. With the exception of the large conference rooms, same type Distributed Spaces should, where practicable, be vertically stacked in the building. Some of these spaces will require special construction features, such as venting to the outside, or supplemental heating, ventilation and air-conditioning (HVAC).

In the POR, Distributed Space is categorized and allocated as follows:

<u>Distributed Space</u>	<u>Distribution Strategy</u>	<u>Space Allocation Code</u>
Conference Room-CR	1 per approximately 35,000 SF	32300000
Large Conference Room-CR	1 per approximately 500,000 SF	33100000
Pantry-PA	1 per approximately 10,000 SF	31000000
Vending Room-DV	1 per approximately 200,000 SF	34000000
Convenience Copy Room-EQ	1 per approximately 20,000 SF	32000000
High Volume Copy Room-EQ	1 per approximately 100,000 SF	32000000
Local Area Network Room (LAN Room)-IT	1 per 20,000 SF, but at least 2 per floor (adjacent to base building telephone room).	35000000

4. Joint-Use Space

Joint-Use Spaces will be used by all personnel at the PTO's consolidated facility, or by PTO's customers.. These spaces should be located as identified in SFO Sections G.15.1 through G.15.12, or as otherwise noted below.

<u>Joint-Use Space</u>	<u>SFO Reference</u>	<u>Space Allocation Code</u>
Training Facility - TR	G.15.12	21000000
Receiving Areas - CO & SE	G.15.11	22000000
Warehouse/multipurpose Storage - JW	G.15.9. & G.7.6	22500000
Distributed Computer Facility - IT	G.12 and G.15.2	25000000
Credit Union - CU		23000000
Union Offices - MP		24300000
		24500000
		24700000
Cafeteria - JC	G.15.5	26000000
Fitness Center - FT	G.15.4	27000000
Health Unit - HU	G.15.6	27200000
Child Care Center - CH	G.15.3	28000000
Auditorium - JA	G.15.1	29000000

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Mail Room - MA	G.15.7	18140201
Public Search Facility ²	G.15.10	14240300
		14240310
		14240311
		14240312
		14240313
		14240330
		14240332
		14240333
		17100001
		17210100
		17210200
		18140206
		18640000

F. PTO Organization Structure

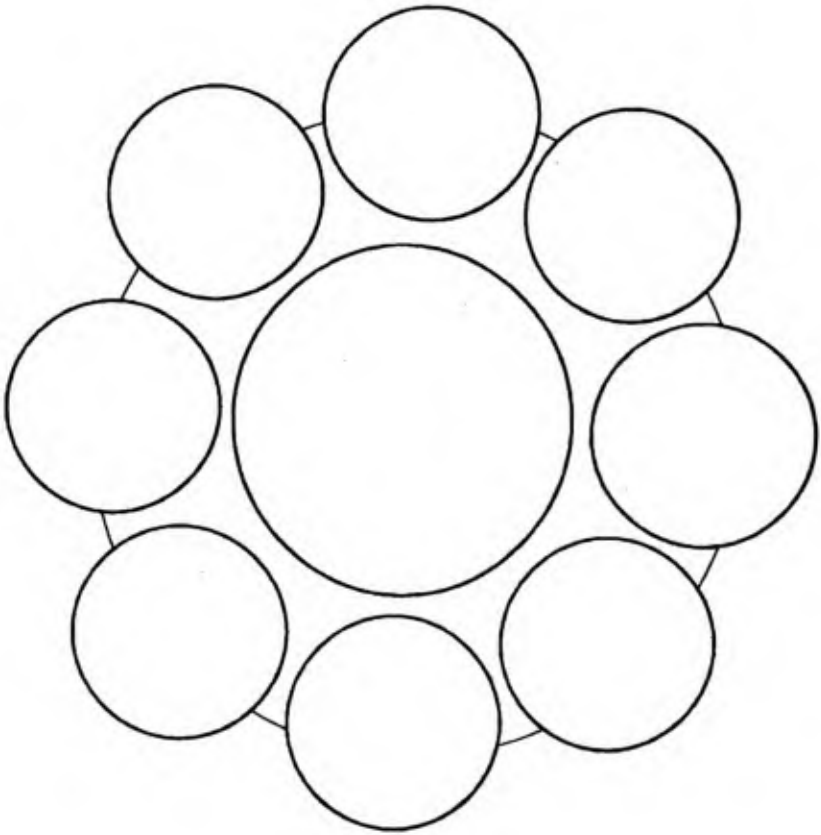
The PTO carries out its mission through seven major organizations:

1. Office of the Commissioner
2. Office of the Deputy Commissioner
3. Office of the Assistant Commissioner for Patents
4. Office of the Assistant Commissioner for Trademarks
5. Office of the Associate Commissioner and Chief Financial Officer
6. Office of the Administrator for Information Dissemination
7. Office of the Chief Information Officer

For each of these seven major organizations, the following Space Breakdown and Adjacency Listing identifies the sub-organizational units which require contiguous space; and lists for each sub-organization: (i) closed office and workstation space requirements, (ii) support space requirements and (iii) adjacency requirements. For Distributed Space and Joint-Use Space, the Space Breakdown and Adjacency Listing identifies the types, number and adjacency requirements for the various sub-categories of Distributed Space and Joint-Use Space. The chart on the following page demonstrates the ideal adjacencies among the major PTO organizations.

² The various elements of the Public Search Facility are run by different PTO organizations. However, these various organizational entries must be co-located so as to facilitate public access.

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PTO Organizational Adjacencies

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G. Numerical Codes

Each PTO organization listed in the Space Breakdown and Adjacency Listing has been assigned a unique numerical code that is used to distinguish that organization from other PTO organizational units listed in the Space Breakdown and Adjacency Listing. Joint-Use Spaces and Distributed Spaces have also been assigned unique numerical codes. At the macro-level, the codes are as follows:

Code	PTO Organization/Type of Space
11000000	Office of the Commissioner
12000000	Office of the Deputy Commissioner
13000000	Office of the Assistant Commissioner for Trademarks
14000000	Office of the Assistant Commissioner for Patents
17000000	Office of the Administrator for Information Dissemination
18000000	Office of the Associate Commissioner
19000000	Office of the Chief Information Officer
20000000	Joint-Use Space
30000000	Distributed Space

Sub-organizations below the PTO's seven macro-organizations, and sub-categories of Joint-Use Space and Distributed Space, are identified by use of the third through eighth code digits, which are shown as zeroes above.

H. Organizational, Joint-Use, and Distributed Space Summaries

For each of the macro-organizational codes identified above, the Space Breakdown and Adjacency Listing provides the following:

Title page

Directory - graphically depicts the micro-level organizational breakdown for each of the seven macro-level PTO organizations.

Square Footage Roll Up - identifies the micro-level organizations and lists the quantity and square footage of (i) Closed Office/Workstation Space and (ii) Support Space allocated to each; and totals the foregoing.

The Space Breakdown and Adjacency Listing - provides the following for each macro and micro-level organizational code:

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- The organization's **Organization Code**;
- The organization's **Title**;
- The organization's **Work Description**;
- The organization's macro **Adjacency Requirements** (which lists required adjacencies between the organization and other PTO organizations, or between the organization and structural building elements such as a freight elevator or building entrance, etc.);
- The organization's **Closed Office/Workstation Space** requirements, including
 - type (by occupational series and, where relevant, function of the position) and number of personnel assigned to that Closed Office/Workstation type;
 - amount of Closed Office/Workstation square footage; and
 - any micro adjacency requirements that may be required to other Closed Offices/Workstations or Support Spaces;
- The organization's **Support Space** requirements, including
 - type (by Support Space code) and number of Support Spaces;
 - amount of square footage of each Support Space type; and
 - any micro adjacency requirements that may be required between a specific Support Space type and other Support Spaces, or between a Support Space and any Closed Office/Workstations; and
- **Secondary Circulation** space requirements.

B. Space Breakdown and Adjacency Listing

The following tabs contain the Space Breakdown and Adjacency listing for each of the PTO's Organizations.

1. Commissioner of Patents and Trademarks
2. Deputy Commissioner of Patents and Trademarks
3. Office of the Assistant Commissioner for Trademarks
4. Office of the Assistant Commissioner for Patents - Other than Technology Centers
5. Office of the Assistant Commissioner for Patents - Technology Centers
6. Office of Information Dissemination
7. Office of the Associate Commissioner and Chief Financial Officer
8. Office of the Chief Information Officer
9. Distributed Space
10. Joint-Use Space
11. Total PTO Space Requirements

Mr. DICKINSON. Then there are another 3 weeks when they have the chance to respond. Then another month or so after that for the final lease award.

Mr. COBLE. Thank you Commissioner. I see my time is expired. It is good to have you with us. The gentleman from California.

Mr. BERMAN. No questions.

Mr. COBLE. The gentleman from Indiana.

Mr. PEASE. Thank you, Mr. Chairman.

Mr. Dickinson, thank you for being here. This is the first time—we have not actually met. Your testimony is a model for what I hope happens here: when you told us what you supported and why, and what you did not and why not. That may seem to be very logical, but we do not hear that a lot. I am grateful for it.

Mr. DICKINSON. Thank you.

Mr. PEASE. I appreciate it. You did say that the administration supports title IV. I would like for you to go into a little greater discussion on that. That obviously has been one of the flash points about whether that would actually help or hurt American inventors. Please give us a little bit more of your thinking that led to your support for that title.

Mr. DICKINSON. Let me first of all say that I hope this becomes a moot point. I am hopeful that we are going to do our work well enough at the office that the vast majority if not all of our patents, will issue before 18 months and this question will basically go away.

We are moving very rapidly in that direction. I would like to suggest that we have a commitment to get to a 12-month cycle time; meaning we will only take 12 months inside the office for 75 percent of our patents by next year. I am hopeful we will get there.

Publication, I think, has an advantage. It is perceived to have an advantage in that it allows for companies and even small inventors who would make a very substantial investment in research and development to understand where research is going now so that they do not duplicate that effort.

So that they do not make that kind of substantial investment and find later that someone has got a patent on it that would block them and make that investment worthless basically. That is not to say that there is not a potential for abuse here.

I think that everybody recognizes that there is. There are provisions that are built in to address those abuses. One, as we mentioned, is the provisional rights which would grant reasonable royalties for the period from the publication to the issuance.

I think that is a very substantial right. The current draft of the bill allows for those entities that would not like to foreign file where you would be required to publish, to not be published in the U.S. All other countries in the world require publication in 18 months, except ours.

If you do not want to have your application published, and then you would not want to foreign file which would cause it to be published, you could have that option under the current legislation.

Mr. PEASE. How do you respond to those who say, though, that publication provides that information to the world and in the event the patent is not granted, then the trade secret protection is gone because it is out before the public?

Mr. DICKINSON. Well, you could abandon your application at any time prior to 18 months and it would not be published. You have an 18-month window of opportunity, which is actually pretty close to where we are on the issuance of patents now as a matter of fact. As I say, we hope to get under that window.

Mr. PEASE. Thank you on that. One of the things that I see when I do get to watch television which is usually around 11:30 p.m. or midnight are these advertisements for inventors to come call this 800 number and we will take care of you, which I am sure they do in one way or another. My question to you is what is going on in that industry?

Mr. DICKINSON. That is an excellent question. We are concerned that there has been an increase in the number and the outreach of these invention promotion scams. There are some that are legitimate, but there are an awful lot of them that are not.

As I said, we estimate that the fraudulent ones cost us about \$200 million a year. With the growth of the Internet, for example and television, we are starting to see a lot of different creative approaches by these scam companies. We would like to try to address that.

I think your legislation, in large part, addresses that as well. We have done a couple of things at the PTO. We have just recently opened the Office of Independent Inventor Programs. One of the key tasks of the office will be to provide a lot of information about these firms.

I think information in many ways is the best remedy; getting the correct information to these folks. We will also very shortly, film some public service announcements and prepare some radio public service announcements, which I think will provide additional information. Hopefully, they will run them back-to-back on late night television.

Mr. PEASE. Thank you very much. Thank you, Mr. Chairman.

Mr. COBLE. I thank the gentleman. The gentle lady from California.

Ms. LOFGREN. I do not have a lot of questions. I am pleased to meet you and I look forward to working with you in the future. Just on the fee issue, I understand the point that you have made. I am not really hostile to the point.

In just the 4 years I have been in the Congress, there has been a lot of distress on the part of this committee and the Full Committee on a bipartisan basis about the PTO as being a contributor to the budget.

Some of us on both sides of the aisle really categorize this as attacks on innovation. I think it really is an attack. It is terribly inappropriate. I realize that you are not OMB. You are the PTO office. I would hope that if we were to revisit this whole fee issue that you would be a vigorous and vocal spokesperson opposing attacks on innovation.

I would be very reluctant to do this, unless I had very strong assurances that this was not going to then just be bled off into the general funds through the back door.

Mr. DICKINSON. We certainly share the concern that you have raised about where the revenue from our fees goes. I also appreciate you acknowledging that I am not OMB. I am sure they are

here in the room somewhere today. So, I will watch myself. One thing I would like to point out is that I am very pleased that the President's budget for the year 2000, for the first time in awhile, proposes that there be no permanent rescission. There is a rescission in the 1999 budget. I am pleased that in the 2000 budget we do not have such a rescission.

We do have a carryover, as I mentioned. It has got some particular purposes. This additional surcharge is intended, as I mentioned, as a pilot program to address this very specific concern about some unfunded liabilities that have previously been paid outside of that fee structure that account for the retirement health and life insurance benefits of our retirees.

Ms. LOFGREN. Finally, I know you were here to hear the discussion on prior use, submarine patents, and the like. I am just wondering if you have thoughts on the issue that Mr. Campbell and I were discussing relative to the patent term, and the submarine patent problem, and the interplay of that issue as it relates to product life cycles in the high tech arena?

Mr. DICKINSON. Well, it was an interesting discussion because there are tensions in this area. We certainly understand the need to get patent protection as quickly as possible in a number of industries. Industries in California, in the Silicon Valley, in particular.

With regard to prior user rights, that is a very difficult question. A lot of people raise the kind of issues that Congressman Campbell raised. As Congressman Rohrabacher said, there are I think opportunities for compromise. There are opportunities to find particular problems that exist and maybe target the kind of relief that we are talking about at those targeted objectives.

Ms. LOFGREN. I think that is probably correct in terms of industrial processes. I mean some people feel you have to have the patent walking down the hallway practically. It gets terribly burdensome. I think you are right. There is probably room to agree in the middle on that. I was referring actually to the submarine issue.

Mr. DICKINSON. Submarining was a significant problem. I will say very candidly—

Ms. LOFGREN. It still is.

Mr. DICKINSON. I think it still is a significant problem. There are still many, many applications that are pending in our office that were filed before the 20-year filing term went into effect. I am hopeful that those are not going to be submarines.

Current indications may be that there is room for some concern there. Submarining is a particular problem that, hopefully, the 20-year filing term will eventually resolve.

Ms. LOFGREN. I guess I am not seeing how the 20-year issue really solves it in a high tech world.

Mr. DICKINSON. If I understand your question correctly, let me address the way it primarily solves it now. It says that your term starts running the day you file your original application.

Ms. LOFGREN. Correct.

Mr. DICKINSON. It expires 20 years after that date. No matter how many continuation applications, for example, you file after that original filing, you are still bound by that original date.

Ms. LOFGREN. Correct.

Mr. DICKINSON. Under the previous system you could file a continuation, after a continuation, after a continuation until it issued, your term would not start to run. That is basically what people who were intentionally submarining did many times. So, I am not quite sure how that relates to the exact question you are asking.

Ms. LOFGREN. All right. Let me think about that some more. My time is up. We will have ample time to get into it.

Mr. DICKINSON. Thank you.

Mr. COBLE. The gentleman from Massachusetts.

Mr. DELAHUNT. I have very few questions, Mr. Chairman. I just want to comment that I just perused your opening statement. I was really pleased to hear that you are having discussions with our colleagues who I understand testified earlier.

It would really, I think, be productive and useful if we could sit down with the interested constituencies that feel impacted by this proposal. I just cannot understand why there is not common ground for speedy resolution.

I welcome and I understand Mr. Pease's comment. When he gets home at 11 p.m., he is usually watching himself on C-SPAN.

Let me ask just a really simple question. If the revenue is dedicated, if there are fire walls, if it cannot be in any way diverted, would many of these issues that are the source of contention now just evaporate? Is that a fair statement?

Mr. DICKINSON. I think it is a fair characterization.

Mr. DELAHUNT. I think really, Mr. Chairman, I think our emphasis ought to be once and for all to try to create a fire wall around these revenues.

I think it would meet the concerns expressed by Ms. Lofgren. We could get this finally done and finally approved.

I see my friend, Mr. Pease, shaking his head in the affirmative. He and I were Freshmen last year. This was going to be a rather nonchalant walk in the park, this H.R. 400. It really did not turn out that way; did it, Mr. Chairman?

Mr. COBLE. It did not indeed.

Mr. DELAHUNT. Okay. I really would hope that we can resolve it. What is at stake here, to a large degree—and I do not think I am indulging in any hyperbole—is really the American economy.

In terms of our trade balance or imbalance, however you want to describe it, we really have to ensure the appropriate protection for those who create our intellectual property. This is the one segment of our economy where we have a surplus.

In fact, I think it just exceeded agriculture as that segment of the economy which produces more positives as far as our trade balance is concerned. I do not know how we, as a committee, can get this across. I think really we should make every effort to accomplish that goal.

I yield back and thank you, Mr. Chairman.

Mr. COBLE. Bill, I have said this. I may have said it prior to your coming here. I indicated that as opposed to the surrounding climate of H.R. 400, we have far more harmony now and less hostility. I am not suggesting that everybody at the table is eagerly and warmly embracing one another.

At least, we are not slugging one another. That is a step in the right direction.

Mr. DELAHUNT. Another step, Mr. Chairman was, I am reclaiming my time for just a minute. I am glad it has a different number.

Mr. COBLE. Yes. That would not be a good idea.

Mr. DELAHUNT. I do not even like the number 400.

Mr. COBLE. I thank the gentleman. Commissioner, thank you for being with us. We will be in touch I am sure. Feel free to come a calling any time.

Mr. DICKINSON. Thank you, Mr. Chairman. I thank the committee.

Mr. COBLE. If the next panel will come forward, I will introduce you all. I will suspend for a moment and let those who leave depart.

[Recess]

Mr. COBLE. Our first witness is Charles E. Ludlam, Vice President for Governmental Relations at the Biotechnology Industry Organization since BIO's founding in 1993. He is responsible for all legislative and many regulatory initiatives at the organization. Mr. Ludlam received his J.D. degree from the University of Michigan School of Law in 1972, and his B.A. from Stanford University in 1967. He served as well as a Peace Corps volunteer in the Nepal from 1968 to 1970.

Our second witness is Mike Kirk who is the Executive Director of the American Intellectual Property Law Association. Mr. Kirk served as Deputy Assistant Secretary of Commerce and Deputy Commissioner of Patents and Trademarks from May 1994 through March 1999.

In 1993, Mr. Kirk also served as the Acting Assistant Secretary of Commerce and Acting Commissioner of Patents and Trademarks. Mr. Kirk earned his Bachelor of Science in Electrical Engineering at the Citadel and his J.D. from Georgetown University Law Center, and his Master of Public Administration in 1969 from Indiana University.

Mike, I did not realize that you were armed as well with MPA. I knew about your two earlier degrees. Our next witness is Normal Balmer who is Chief Patent Counsel for the Union Carbide Corporation.

He is the current President of the Intellectual Property Owners. Earlier in his career, he was a patent lawyer with Monsanto and DuPont, and was a partner in the Law Firm of Morton, Bernard, Brown, Roberts, and Sutherland.

He holds a B.S. degree in Chemical Engineering with Honors from Penn State University and a J.D. degree with honors from George Washington University. Our fourth witness is Mr. Kim Muller who is Vice President of the International Trademark Association. Mr. Muller was Secretary at the Houston Intellectual Property Association from 1992 to 1993, and for the past 2 years, he has been Chair of the Patent and Trademark, and Copyright Section of the State Bar of Texas.

Mr. Muller earned his B.S. in General Sciences from the Virginia Polytechnic Institute and his J.D. with honors from the John Marshall School of Law, and his L.L.M. from the George Washington University in 1978.

Mr. Robert Tobias who is the National President of the National Treasury Employees Union. Since August 1993, Mr. Tobias has

served as the Chief Officer and spokes person of the National Treasury Employees Union, the Nation's largest independent Federal sector union.

Mr. Tobias is a Michigan native and received his Bachelor's degree and a Master's degree in Business Administration from the University of Michigan. He was graduated from the George Washington University School of Law where he also served on the adjunct faculty.

Our final witness on this panel is Mr. Ronald Stern. Mr. Stern is President of Patent Office Professional Association. Mr. Stern holds a Bachelor's degree from the City College of New York and a law degree from the George Washington University.

Now gentlemen, there is no preference in order. You will have to go in the order that I called your name. Mr. Balmer, why do I not start with you and then we will move to my right. Good to have each of you with us gentlemen.

Your written testimony has been examined and will be examined subsequently. So, I do not want to sound like a broken record. If you could keep the red light in the front of your minds, we will all be appreciative. Mr. Balmer.

STATEMENT OF NORMAN BALMER, PRESIDENT, INTELLECTUAL PROPERTY OWNERS

Mr. BALMER. Thank you, Mr. Chairman and members of this subcommittee. Intellectual Property Owners is again honored to appear before you. I will cover only a few points from my written statement.

The first to invent defense of the Committee Print addresses a tension between patents and trade secrets. Incentives must be provided to not only invent, but also for inventors to commercialize their technology and create jobs.

The first inventor defense is needed to define the right balance between these incentives. Trade secrets are many times the only effective form of intellectual property. A patent disclosure can be tantamount to giving technology away to foreigners.

While we supported the counterpart provisions in H.R. 400, changes have been made in title II that are not good for innovating manufacturers. In the chemical industry, for instance, building a plant to use new technology requires time and substantial expense.

Under H.R. 400, substantial preparations would have triggered a prior user defense. This protection does not exist in title II. The risk would shift to the innovating manufacturer. Investment in the U.S. could be discouraged without an effective first inventor defense.

A lose-lose scenario can exist. In another industry, the State Street Bank Decision dispelled the widely-held perception that—business methods were not patentable. The filing of business method patents has skyrocketed.

Let us say that Bank U.S.A. and Bank Germany independently developed software for their business operations. In 1996 both implemented their inventions. Current law prevents Bank U.S.A. from obtaining the patent because of its prior commercial use in the United States.

Bank Germany is not barred. Without a first inventor defense, Bank U.S.A. may well find itself at the mercy of its foreign competitor. IPO recognizes that in dealing with first inventor defense, the subcommittee and Congress will need to make some policy decisions.

We urge that U.S. innovating manufacturers not be placed at a disadvantage to their foreign competitors. Our comments on patent term guarantee are in the written statement. We submit that the real issue is achieving standards of excellence for the PTO.

[Chart]

That would be that slide up there. The PTO needs restructuring to help achieve these standards and title VI provides that restructuring.

[Chart]

I now turn to H.R. 1225. Our message is simple. I fear I am preaching to the choir. Resources to the PTO must be available and dependable and user fees must be reasonable. Eliminating the ever-escalating, the slide over there, diversion of user fees would be a major breakthrough.

Mr. Chairman, we are indebted to you for your success last year in reducing the diversion. We all have to continue our efforts to prevent user fees from being used, as my colleague from AIPLA states, as a petty cash fund. In our testimony last year, we expressed concern that the PTO would be subject to out of phase swings in funding and work demand; particularly because of reliance on maintenance fees.

While not yet an apparent problem, we suggest that a reserve be established to smooth out these swings. Up-swings, of course, would make user fees more attractive to diverters. The financial health of the PTO depends upon global conditions.

For example, of the top 50 patentees in 1998, nearly 50 percent of the patents issued were awarded to Japanese companies. These nearly 17,000 patents represent an opportunity for almost \$1 million in maintenance fees.

We wish to thank you, Mr. Chairman and members of this subcommittee for your leadership in improving the intellectual property system. We stand ready to help you in any way that we can as you continue those efforts.

Thank you.

[The prepared statement of Balmer follows:]

PREPARED STATEMENT OF NORMAN BALMER, PRESIDENT, INTELLECTUAL PROPERTY OWNERS

SUMMARY

- IPO strongly supported Chairman Coble's patent reform bill of the last Congress, H.R.400. The new Committee Print on Patent Reform dated March 22, 1999, makes significant compromises, but IPO enthusiastically supports many aspects of the Committee Print.
- The first to invent defense in the Committee Print preserves trade secrets that are the lifeblood of American manufacturing and service companies. The first to invent defense gives later inventors more certain protection against challenges to validity of their patents by earlier inventors.
- IPO would prefer to see all U.S. patent applications published after 18 months, but supports the Committee Print compromise for United States publication of patent applications published abroad.

- The Patent Litigation Reduction Act in the Committee Print will encourage third parties to use relatively quick and inexpensive reexamination proceedings in the PTO instead of filing lawsuits in U.S. District Courts.
- The Patent and Trademark Efficiency Act in the Committee print will revise the structure and authority of the PTO so that it can better serve the public.
- IPO believes the Committee Print will help protect inexperienced independent inventors from "scam" invention promotion organizations.
- IPO supports H.R. 1225, the PTO reauthorization bill, and opposes charging additional fees to users of the PTO in order to cover post-retirement health and life insurance costs of PTO employees.

STATEMENT

Mr. Chairman and Members of the Subcommittee:

I am chief patent counsel for Union Carbide Corporation in Danbury, Connecticut, and current President of Intellectual Property Owners Association (IPO). I am presenting IPO's views on the Committee Print on Patent Reform and on H.R. 1225, the Patent and Trademark Office Authorization Act. Thank you for the opportunity to appear before the Subcommittee today.

IPO is a trade association of U.S.-based owners of intellectual property rights—patents, trade secrets, trademarks, and copyrights. Our members file about 30 percent of the patent applications that are filed in the U.S. Patent and Trademark Office by U.S. residents and pay well over \$100 million a year in fees to support the operations of the PTO.

The two bills that are the subjects for today's hearing, would advance the interests of patent and trade secret owners. Patent and trade secret owners include businesses—which make up most of our members—and independent inventors, universities, and other entities. Most patent and trade secret owners have common interests, including:

- an interest in a patent system and trade secret laws that promote invention and encourage implementing new technologies in the U.S. to create jobs and enhance the economy,
- an interest in controlling costs of obtaining, maintaining, and enforcing patents,
- an interest in the scope and certainty of patent and trade secret rights, and
- an interest in maintaining excellence in the PTO.

Committee Print on Patent Reform

The Committee Print on Patent Reform dated March 22, 1999, the "American Inventors Protection Act of 1999," is a very significant proposal for improving the nation's patent laws. It is a successor to Chairman Coble's H.R. 400 of the last Congress. A great many people in Congress and the private sector worked hard for passage of H.R. 400, which passed the House of Representatives in 1997 but failed to pass the Senate.

Having said that, however, the new Committee Print does not contain every patent reform that IPO's members would like to see, and it does depart from H.R. 400. The Committee Print makes significant compromises on issues that proved controversial in H.R. 400 and the counterpart Senate bill. Nevertheless, there are many aspects of the Committee Print we enthusiastically support. It reduces the cost of obtaining, maintaining and enforcing patents, adds more certainty to patent and trade secret rights, and enables the PTO to provide better service to the public.

I will summarize IPO's position on each of the main titles of the Committee Print.

Title I, Inventors' Right

We see much merit in prohibiting improper practices by invention promotion firms. Title I makes knowingly providing any false or misleading statement or omission of material fact by an invention promotion service a misdemeanor that can result in a fine of up to \$10,000 per offense. We believe that Title I will go a long way to protect inexperienced independent inventors from "scam" invention promotion organizations. It requires disclosure of a firm's track record and allows an inventor to withdraw from a contract with a firm within a reasonable time.

Although very few of the members of IPO have had any experience with invention promotion firms, we strongly support Title I because it addresses a longstanding and possibly growing problem facing the U.S. inventor community.

Title II, First to Invent Defense

Title II is an important proposal for preserving trade secrets that are the lifeblood of American manufacturing and service companies. It also protects an inventor who obtains a patent from possible invalidity challenges. A section 102(g) challenge to a patent based upon prior secret development recently was upheld by the Federal Circuit. (*Thomson S.A. v. Quixote Corp.* No. 97-1485, January 25, 1999.) Title II provides more certainty for the patent owner on this issue.

It creates a defense, a first to invent defense, against patent infringement charges for parties who (i) have reduced an invention to practice in the U.S. at least a year prior to the patent filing date, (ii) have commercially used the invention in the U.S. prior to the filing date, and (iii) did not derive the invention from the patent owner. Under the Committee Print, the prior user must carry the burden of proving entitlement to the first to invent defense.

Title II has been changed from the prior user defense of H.R. 400 in the last Congress. The Committee Print, in section 273(b)(3)(A) of title 35, United States Code, now limits the first to invent defense to inventions that are used to produce a useful end product or service. These inventions include, for example, manufacturing processes and equipment, chemical materials such as catalysts, and computer software.

Also, the bill no longer gives the defense to parties who have made "serious and effective preparation" for commercial use. Actual commercial use before the filing date of the patent is required. The Subcommittee should carefully weigh the impact of these changes from H.R. 400 on innovation in U.S. industry. It can take years and millions of dollars to engineer and construct a manufacturing plant using new technology or producing a new product. The Committee Print does nothing to reduce the risk to the business from infringement from patents filed in secrecy during the construction of the plant.

Inventions such as manufacturing processes often can be protected most effectively against copying by U.S. competitors by keeping them as trade secrets instead of obtaining a U.S. patent. Moreover, U.S. patents can be a blueprint for foreign competitors to steal technology. A patent publishes the secrets and is available to competitors in countries where enforcement of patents is more problematic.

The first to invent defense is critical to developers of business method software, among others. In July 1998 the U.S. Court of Appeals for the Federal Circuit decided in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.* (96-327) that there is no "business method" exception to patenting of software-related inventions. This decision will have significant ramifications. By December 1998 the Patent and Trademark Office reported a 40 percent increase in patent applications for business method software. Firms in the financial industry that developed and commercially used business methods in secret before 1998 are foreclosed from obtaining their own patents because of their own prior commercial use (35 U.S.C. 102 (b)). Yet, later developers of the same methods can now obtain a U.S. patent. Title II will make more certain the validity of newly filed "business method" patents while allowing prior inventors the ability to continue serving the public in their businesses.

In summary, the first to invent defense of title II is essential to protect and encourage business investments in manufacturing and services and prevent a costly giveaway of American know-how to foreign competitors through patenting of inventions that are better protected by secrecy.

Title III, Patent Term Guarantee

Title III extends the date of expiration of a patent beyond 20 years after the date of filing in cases of unusual delay in the Patent and Trademark Office. Title III differs from a similar provision in H.R. 400 by setting forth separately three guarantees of patent term adjustment. They are (1) the "Guarantee of Prompt Patent and Trademark Office Responses," (2) the "Guarantee of No More Than 3-Year Application Pendency," and (3) the "Guarantee of Adjustment for Delays Due to Interferences, Secrecy Orders, and Appeals." Title III broadens the guarantee of no more than 3-year pendency to permit an adjustment despite the patent applicant taking more than three months to respond to Patent and Trademark Office rejections, if the applicant shows that in spite of all due care, it was unable to respond within the 3-month period.

By measuring the patent expiration date from the date of application filing, the law that came into effect in 1995 eliminated the incentive for applicants to extend patent expiration dates through delays in the Patent and Trademark Office. Some patents granted under the pre-1995 law, with a term of 17 years measured from the date of patent grant, have been granted 40 years after their original filings. Such patents are sometimes called "submarine patents."

Title III of the Committee Print retains the reformed patent term that expires 20 years after filing, but insures that diligent applicants will not receive shorter terms than the old 17-year term. The broadening of the patent term guarantee in Title III adds complexity to protect the few diligent patent applicants who are unable to obtain their patents in three years after filing. IPO believes that the correct solution resides in improving efficiency and excellence in Patent and Trademark Office operations. However, the proposal in Title II minimizes the potential for abuses that previously enabled "submarine patents."

Title IV, United States Publication of Patent Applications Published Abroad

Title IV of the Committee Print requires publication of a patent application 18 months after filing if the application is also being filed abroad in a foreign country that requires publication of applications 18 months after filing. It establishes a provisional right to a royalty for pending applications, beginning with the date of publication of the application. For the patent owner to be eligible for the royalty, the published and granted claims must be substantially identical and the owner must have given actual notice of the published application to the person who is using the invention.

The Committee Print simplifies and further limits the publication requirements that were in H.R. 400 and its Senate counterpart in the last Congress. Publication is now required only if the application is filed abroad and the filing abroad is in fact in a country that requires publication at 18 months. The Committee Print strengthens the safeguards against attacks on published applications during patent examination in the PTO by prohibiting any protest or other form of opposition whatsoever after the application is published and before the grant for a patent, without the written consent of the applicant.

Publication of patent applications within a reasonable time is one of the most-needed reforms in U.S. patent law. While IPO would prefer to see the publication requirement cover all applications filed in the PTO, we support Title IV of the Committee Print as an acceptable compromise, in a comprehensive package of reforms.

Publication of applications will eliminate duplication of research and accelerate research into new areas by making information about developments available in the English language at an earlier date than at present. Title IV makes most foreign-origin applications available about 6 months after they are filed in the U.S.

In addition, publication will reduce litigation and uncertainty over patent rights by making information available on the scope of patent claims that are being sought in published applications. IPO believes publication of applications should include a continuing right for members of the public to monitor the contents of the written record of applications pending in the Patent and Trademark Office after the applications are published. Publication, along with the patent term that expires 20 years after filing, will put an end to the ability of submariners to surprise U.S. manufacturers with long-delayed, secret patent claims.

Title V, Patent Litigation Reduction Act

Title V of the Committee Print, which gives third party requesters greater opportunities to participate in patent reexamination proceedings in the PTO, will encourage third party requesters to use relatively fast and inexpensive reexamination proceedings in more cases, instead of extremely slow and brutally expensive civil litigation in U.S. District Courts.

Title V allows the third party requester one opportunity to submit written comments each time the patent owner files a response to the PTO. The title also gives third parties a right to appeal the PTO's decision on reexamination to the Board of Patent Appeals and Interferences and to the U.S. Court of Appeals for the Federal Circuit.

The bill has been amended from the legislation in the last Congress to require that all comments by the third party requester must be in writing, and to make clear that appeals by the third party may be taken only to the Court of Appeals for the Federal Circuit and not to U.S. District Court. Also, Title V now eliminates the provision in existing law that permits third parties to submit prior art to the PTO while keeping their identity confidential.

Title V contains numerous safeguards to prevent frivolous requests for examination. Reexamination proceedings will continue to be limited to issues involving prior patents and publications. No examination can be started until the PTO makes a determination that a substantial new question of patentability has been raised, and the Commissioner's determination of that issue continues to be unappealable. The Committee Print contains tight estoppel provisions that prevent re-litigation of issues that were raised or could have been raised.

IPO strongly supports Title V as a reform that will reduce patent litigation and benefit all patent owners.

Title VI, Patent and Trademark Office

Title VI of the Committee Print, the "Patent and Trademark Office Efficiency Act," makes the PTO an independent agency of the Federal government, subject to the policy direction of the Secretary of Commerce, and broadens the PTO's operating flexibility and establishes a PTO Public Advisory Committee. This title is revised substantially from H.R. 400 and its Senate counterpart in the last Congress.

Although we would prefer to see additional authority for the PTO, such as authority to increase pay and benefits for highly skilled employees, we believe Title VI represents a major PTO reform. Title VI will position the PTO to improve services to the public.

The PTO will receive significant procurement authority to contract for or purchase equipment, office space, and printing services. It will be exempt from government-wide personnel ceilings that have impeded the hiring of patent and trademark examiners in recent years.

The Office will be headed by a Director with a professional background and experience in patent or trademark law and management, who will appoint a Commissioner of Patents and a Commissioner of Trademarks. The Director will be eligible for a performance bonus of up to 50 percent of salary, based on an evaluation by the Secretary of Commerce of the Director's performance as defined in an annual performance plan. This kind of incentive compensation, common in private industry, is especially appropriate for government agencies like the PTO, which are self-supporting and provide services to the public.

The PTO Public Advisory Committee will be appointed by the Secretary of Commerce and have a balanced membership including members who represent small and large entity patent applicants located in the United States in proportion to the number of applications filed by such members. We believe the Public Advisory Committee will provide a structure that will enable the users of the PTO to have a strong voice, although advisory, in how to improve PTO services.

Title VI does not establish the PTO as a "government corporation" under the Government Corporation Control Act, but it is not significant whether the PTO is called a "corporation," a term that contributed to misunderstanding of earlier bills to reform the administration of the PTO. The objective should be to revise the structure and authority of the PTO so that it can better serve the public. Title VI would achieve that objective.

Patent and Trademark Office Reauthorization Act

We also support H.R. 1225, the "United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2000."

The performance of the PTO is critically important to its customers and to the economic welfare of the entire country. Our patent and trademark laws, of course, encourage innovation and business investment and protect consumers.

IPO in past hearings of this Subcommittee has suggested three main standards that the PTO should meet. These standards are listed on *POSTER 1*, a copy of which is appended to my statement.

First, high quality professional examination of patent and trademark applications in the PTO always is paramount. Patents should be granted and trademarks registered only for those inventions and marks that meet the statutory requirements. No PTO goal ever will be more important.

Second, processing of patent and trademark application must be prompt. Eighteen-month average total pendency for patent applications—or the equivalent of 18-month pendency in terms of the PTO's newer measure of "cycle time"—is a previously achieved standard. For trademarks, 3 months between filing and first examination is a previously achieved standard.

Third, the cost of obtaining patents and trademark registrations must be reasonable. We were delighted with the action taken by Congress last year to reduce patent fees by some \$50 million a year, the first time in memory that patent fees have been lowered in the U.S. Further fee reductions in the U.S. may be possible and should be kept in mind.

Patent owners also face burdensome patent fees in other countries. As a direct result of jawboning by the U.S. private sector, foreign and international patent offices have started a movement in the past three years toward lowering patent fees. The European Patent Office and the World Intellectual Property Organization each have announced two fee reductions. The national patent offices in Japan and the United Kingdom have cut fees, and the Australian office has cut fees twice. This movement needs to be encouraged and accelerated.

The PTO, of course, needs adequate funding to do its job. A regular topic for PTO oversight hearings before this Subcommittee has been the diversion of patent fees from the PTO to unrelated government programs. *POSTER 2*, a copy of which is appended to my statement, shows the history of patent fee diversion since 1991. IPO congratulates the Chairman and members of the Subcommittee for their efforts last year that led to a decline in fees diverted for the first time. We are very pleased that the President's budget for fiscal year 2000 recommends no diversion, although it proposes a carryover of \$160 million to fiscal year 2001. As the members are aware, the appropriations process for 2000 is not completed, and the possibility of diversion of PTO fees still exists. We urge you to continue to resist efforts to divert fees.

Last year when we testified before the Subcommittee, we expressed a concern that a large portion of income to support patent examination comes from sources unrelated to the number of patent applications filed. About 40 percent of the PTO's patent revenue comes from maintenance fees. A significant change in economic conditions could result in changes in patterns of maintenance fee payments. *POSTER 3* illustrates the magnitude of revenue loss that could occur. Fortunately, preliminary data from the PTO seems to indicate that the Asian economic crisis has not led to a maintenance fee drop-off. Nevertheless, we still believe the ideal funding arrangement for the PTO would allow for the PTO to have a substantial financial reserve to cover cash flow problems during economic downturns. We suggest this is a topic that deserves further study by the Subcommittee.

Finally, turning to the specific provisions of the re-authorization bill, H.R. 1225, we support the bill. The projected spending for the PTO in fiscal year 2000 appears to be adequate to enable the Office to continue making inroads into the backlogs of unexamined patent and trademark applications and to meet its other needs. We agree with the provision in H.R. 1225 that prohibits the PTO from charging additional fees to users in order to cover the accrued indirect personnel costs associated with post-retirement health and life insurance of officers and employees of the PTO. The proposal in the President's budget to charge additional fees for this purpose is not justified.

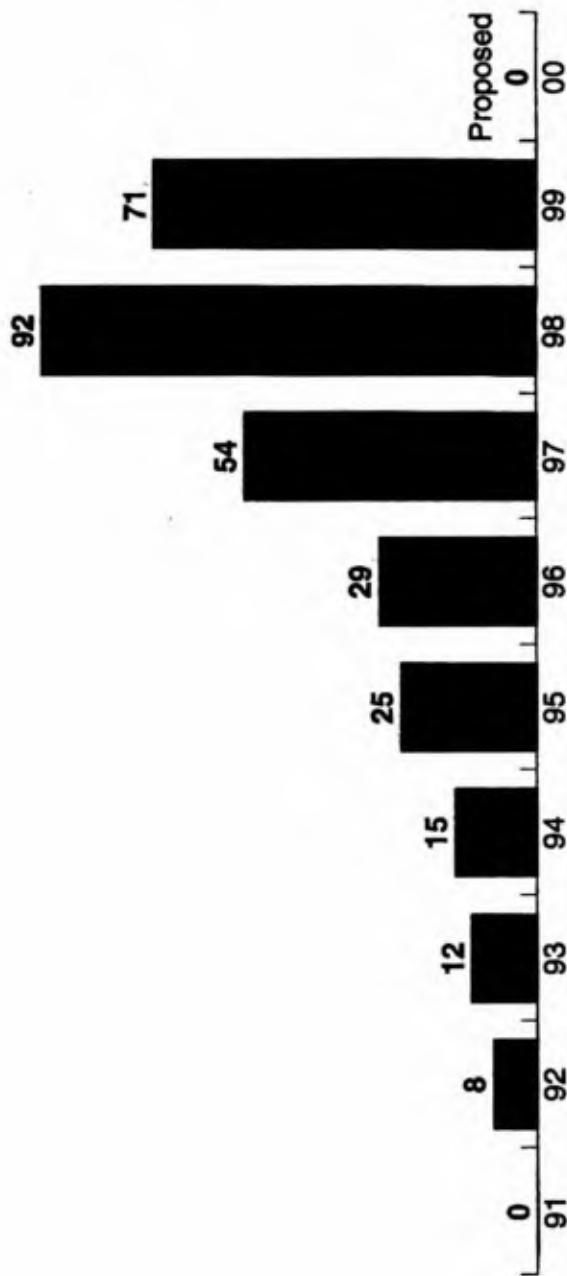
We appreciate this opportunity to appear before the Subcommittee. I will be happy to answer any questions.

STANDARDS OF EXCELLENCE FOR THE PTO

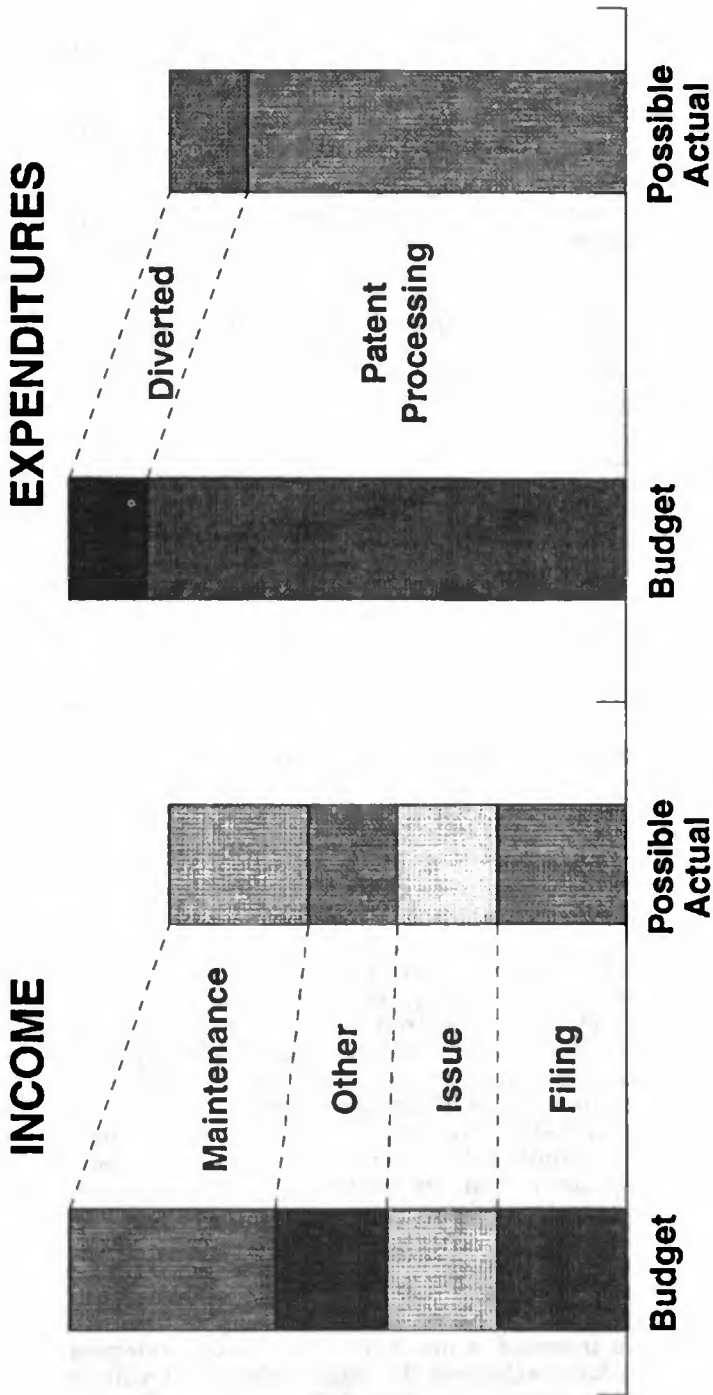
- **High Quality Professional Examination**
- **Prompt Patent and Trademark Processing**
 - **18 mos. for patents**
 - **3 mos. to first exam for trademarks**
- **Reasonable Fees**

PTO FEES DIVERTED 1991 – 2000

(in \$ millions)



UNCERTAIN PATENT PROCESSING FUNDS



Mr. COBLE. Mr. Balmer, thank you for that. You mentioned me and the members. This is indeed a team effort. This subcommittee works very closely together. I appreciate your recognizing that. Mr. Kirk.

**STATEMENT OF MICHAEL K. KIRK, EXECUTIVE DIRECTOR,
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION**

Mr. KIRK. Thank you, Mr. Chairman.

I, too, will hit only selected items in the Committee Print. First of all, let me say that we have strongly supported title I to deter fraudulent invention promotion services and we continue to support it. It needs to be enacted.

Ms. Lofgren mentioned the high cost of obtaining patents in connection with the prior user right defense. We agree with that. We would also second the comments made by Mr. Balmer regarding the State Street Bank case. That has injected a new element into the prior user right front.

I would note that this is not limited necessarily to processes. It can be both product and process. In fact, in State Street, it was a product, not a process.

I was pleased to learn from the earlier conversation that the issue of patent term no longer seems to be an issue. Thanks to your efforts, we believe that his has now been satisfactorily put to bed. It is something we can put behind us and move on to other items.

AIPLA has long favored 18-month publication. We believe that it accomplishes a lot of good things. It puts the public on notice. It discloses information. It protects the inventor with provisional rights.

We would note, however, that the way the bill is currently drafted—exempting publication of U.S. applicants who are not filing abroad—is not something that we would have preferred.

We believe that publication across the board would be better. We still support publication, however, even on this limited form. It will give U.S. inventors, researchers and business decision makers information about what is coming from abroad much earlier than today.

I would like to point out in response to a comment made earlier with respect to the progress the USPTO plans and hopes to make in pendency reduction, that unless they can get pendency down to 6 months, there would still be a delay in the publication of foreign origin applications because these applications do not reach our shores until roughly 12 months after they have been filed abroad. So, we would still benefit from seeing foreign technology earlier.

Notwithstanding the comments that some people have made about reexamination, we believe that the balance that you have struck in the Committee Print is a very sound basis for moving forward.

You have very slightly opened participation by members of the public, allowing them one opportunity to comment on each step of the process and to be involved in the appeal process. Against that, you have inserted a number of additional safeguards. We believe that you have achieved the right balance. It will result in a much better reexamination system that will be used and will benefit par-

ticularly smaller companies that will not have to get involved in very expensive District Court litigation to sort out patent validity.

Title VI obviously differs quite substantially from the approach taken last year of establishing a Government corporation. Title VI would make the USPTO an independent agency in the Department of Commerce under the policy direction of the Secretary, but with a "fire wall" to prevent meddling, if you will, by mid-level officials in the Commerce Department in USPTO affairs.

We think this is very desirable. We are also particularly pleased with the performance-based aspects that you have in your bill: the performance agreement between the Director and the Secretary of Commerce, with a possibility of a bonus, or the requirement to issue regulations that will focus on the cost effectiveness of the operations of the USPTO and on the establishment of an advisory commission to look at the overall operations of the office. This will benefit both users and Congress with additional oversight. We think this is a good step forward and we would like to move in that direction.

Briefly, on H.R. 1225, Mr. Chairman, you have stated in the past that the revenues generated by the patent fee surcharge, that is no longer with us, had become a target of opportunity by Congressional appropriators and last year by the President. You added that the temptation to use this surcharge had proven to be irresistible. You are very prescient because it is so irresistible that now we see it coming back again.

We agree Mr. Chairman, with the implication of the question you asked earlier. At a time when the U.S. Patent and Trademark Office is projecting a surplus of \$160 million that would be carried over into fiscal year 2001, we simply are hard pressed to understand why there is a need to increase patent and trademark fees by \$20 million to pay for these health insurance benefits.

We certainly have no problem with the payment of these benefits, but we are not yet in a situation where the PTO is guaranteed to be able to keep the money that it collects in fees. While the administration has been very skillful in crafting the budget for fiscal year 2000, I am reminded of the saying that "all ships float on a rising tide." We are concerned about the future of the office when the fee surplus starts to go down. So, we very strongly support H.R. 1225.

Thank you very much.

[The prepared statement of Mr. Kirk follows:]

PREPARED STATEMENT OF MICHAEL K. KIRK, EXECUTIVE DIRECTOR, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

SUMMARY

The American Intellectual Property Law Association supports both the Committee Print entitled the "American Inventors Protection Act" and H.R. 1225, the "United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2000."

The Committee Print builds upon years of effort by this Subcommittee to strengthen the patent laws and the functioning of the patent system. It would provide a sorely needed deterrent in Title I against fraudulent invention promoters that prey upon unsuspecting, novice inventor/entrepreneurs by ensuring that they will receive information to better evaluate their prospects for commercializing their inventions and by arming them with a civil remedy to protect against any misrepresentations. Title II would protect American jobs and provide a more level playing field for American innovators to compete with their foreign competitors. Title III

would expand the patent term extension possibilities of existing law to guarantee that no diligent patent applicant would receive less than seventeen years of exclusive patent rights and most would receive more. American inventors would be given the opportunity under Title IV to see, much earlier than today, the technology for which their foreign competitors are seeking patents in the United States. Existing reexamination provisions of the patent statute would be slightly opened by Title V to allow controlled, third party participation to make this inexpensive administrative process an effective alternative to expensive litigation. The PTO would become an independent agency under Title VI with greater flexibility to accomplish its missions along with greater oversight by users and the Congress. While a number of the amendments which have been made in the legislation to address various criticisms undercut some of the bill's benefits, the AIPLA nonetheless supports the Committee Print and urges its enactment.

H.R. 1225 would clearly signal to the Executive Branch that there is no justification for raising PTO user fees when the Office will be running a surplus of \$160 million. Patent and trademark users want the PTO to be able to receive and use user fee revenues to promptly grant and register quality patents and trademarks.

STATEMENT

Mr. Chairman:

I appreciate the opportunity to appear before the Subcommittee today on behalf of the American Intellectual Property Law Association (AIPLA) to present the position of the Association on the Committee Print entitled, the "American Inventors Protection Act" and on H.R. 1225, the "United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2000."

The American Intellectual Property Law Association is a nearly 10,000 member, national bar association constituted primarily of lawyers in private and corporate practice, in government service, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

Introduction

The American Inventors Protection Act (Committee Print) represents years of efforts by this Subcommittee and by American businesses and inventors to improve and strengthen our Nation's patent system. Although we would have preferred H.R. 400 as reported by the Judiciary Committee in the 105th Congress, the Committee Print would make a number of desirable changes in the functioning of the patent system and the AIPLA supports it.

H.R. 1225, the United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2000, is intended to prevent the imposition of an unnecessary and inappropriate surcharge on patent and trademark fees to pay certain post-retirement health and life insurance benefits of PTO employees. Once again, Mr. Chairman, you are taking the lead in protecting America's inventors against the continuing efforts of the Executive Branch to use PTO user fees as a petty cash account to permit the funding of other government programs. The AIPLA thanks you and expresses its strong support for your efforts.

Committee Print

The Committee Print represents the efforts of this Subcommittee going back more than three Congresses to streamline and strengthen the United States Patent System. The various titles of this bill, either individually or collectively, have been the subject of more than a dozen hearings with several dozens of witnesses. During this process, the Subcommittee listened to both proponents and opponents and made numerous changes in the legislation to accommodate the concerns expressed. The AIPLA believes you had it right in the version of H.R. 400 that was favorably reported by the Judiciary Committee in the last Congress, but we understand and appreciate the untiring efforts you have made to craft a measure which addresses the legitimate concerns of the various interests and which was politically viable. While we think that many of the compromises were unnecessary and, quite candidly, in some cases unwise, we recognize your efforts and support the Committee Print that is before us today.

Title I—Inventors' Rights Act

Title I is taken from Title IV of H.R. 400. It is intended to deter the fraudulent invention promotion services which we see advertised in the back of magazines and on late-night TV. Unscrupulous invention promotion organizations have long been

the bane of unsuspecting inventors in the United States. It has been estimated that such unscrupulous invention developers receive more than \$100 million annually from first-time inventors seeking assistance in the marketing and protection of their inventions. Title I seeks to combat the predatory practices of such firms through a combination of—

- requiring mandatory disclosure of the details of their operations and practices,
- requiring reports of the marketing contacts made by the promoter and any results achieved,
- establishing a civil remedy to allow inventors to recover damages, and
- establishing a criminal sanction for knowingly providing false or misleading information.

The AIPLA strongly endorses the enactment of federal legislation to curtail the operations of such unscrupulous organizations.

Title I would add a new Chapter 5 to Title 35 of the United States Code. Proposed new section 52 would require each invention promoter to state, in a written document to be given to each customer, the usual business practices of the promoter, including information regarding the usual terms of its contracts and the fees that it charges. Proposed new section 53 would require that every contract for such services have a cover sheet listing the total number of inventions evaluated by the firm during the preceding five years, together with the number of inventions which received positive evaluations and the number which received negative evaluations. The cover sheet would also require the invention promoter to list the total number of customers with which it had contracts in the previous five years and the total number of customers known to have received, by virtue of the invention promoter's performance, an amount of money in excess of the amount the customer paid to the invention promoter. We believe that disclosure of the acceptance rate by invention promoters of the inventions evaluated as well as the number of times inventors have realized a positive balance of cash flow from such transactions would be useful to inform prospective clients.

Proposed section 55 specifies certain mandatory contract terms. Each contract for invention promotion services must include the terms and conditions of payment, a description of the services which the promoter undertakes to perform, a statement of whether the promoter will construct or distribute prototypes of the invention and, if any representation of projected earnings has been given, a statement of that projection along with a description of the data upon which it is based.

Proposed section 56 (b) would establish a cause of action against an invention promoter by any customer who is injured by a false or fraudulent statement or omission of material fact by the promoter. The recovery may be the greater of \$5,000 or the amount of actual damages sustained. Reasonable costs and attorney's fees may also be recovered from the promoter. The willful misrepresentation of such information is made a misdemeanor subject to a fine of up to \$10,000 for each offense by proposed section 58. While the AIPLA agrees with the establishment of the new criminal sanctions, we strongly endorse the creation of a private right of action, especially with statutory damages and the availability of reasonable costs and attorney's fees. Federal, state, and local enforcement agencies too frequently do not have the resources to prosecute unscrupulous invention promotion firms. Not only would the creation of such a private cause of action address this reality, but the availability of statutory damages along with costs and attorney's fees would increase the likelihood that injured inventors could actually recover sufficient damages to justify their bringing such actions.

The AIPLA believes that federal legislation regulating the conduct of invention promotion organizations is long overdue. Each year literally thousands of unsuspecting, first-time inventors are defrauded by unscrupulous invention promotion firms throughout the United States. Unfortunately, insufficient efforts have been directed toward stopping the activities of these organizations due to the scarcity of resources in the various agencies having enforcement powers. We are extremely pleased to see this title included in the Committee Print and we look forward to its prompt enactment.

Title II—First to Invent Defense Act

Title II of the Committee Print protects American jobs and workers and provides a leveling of the playing field for American innovators with respect to their foreign competition. Section 202 of Title II would add a new section 273 to Title 35 which provides a carefully crafted defense to a charge of patent infringement for a person

who has made a good faith, commercial use of the subject matter of a patent prior to the earliest effective filing date of that patent.

There are a number of reasons why it is not feasible or even possible to patent every invention which could be patented. First and foremost are costs. The costs of seeking and obtaining patent protection in the United States are high. These costs, as well as the costs of enforcing patents in this country, have become so high that U.S. companies, regardless of size, must carefully prioritize which inventions they seek to patent. These costs fall even more heavily on smaller U.S. firms, and especially on independent inventor-innovators, who are frequently limited to patenting only their most important inventions.

The even higher costs of patenting in foreign countries exacerbates the dilemma faced by U.S. companies who develop and manufacture high technology products. The costs of obtaining and maintaining one patent for its 20-year life through the European Patent Office for each of its 18 members are well over \$100,000. U.S. companies also face the additional costs of patent protection in Japan, Canada, Australia and the big emerging markets such as China, South Korea, Mexico, Brazil and Argentina.

The failure of U.S. manufacturers to patent their inventions in other countries because of these high costs constitutes a free gift of technology for all of those inventions—the vast majority—whose sale fully discloses to competitors how to make the inventions and compete with the innovator in foreign markets.

Industrial process technology presents another difficult dilemma for its creators. Identifying a competitor's use of a patented process can be extremely difficult in the United States and virtually impossible in foreign countries. Even if obtaining patents in the United States and abroad were economically feasible, the patent's disclosure of the process presents a significant risk to the patentee in the United States and foreign markets. Especially in the case of products made abroad and imported into the United States, it is very difficult to prove that the products were made by a particular process that infringes a patent in the United States or the country of origin.

For these and other practical reasons, many U.S. companies, and especially smaller U.S. companies, are forced to forego patenting of many inventions. In the case of industrial process technology and certain manufacturing equipment, these companies seek to protect their technology under trade secret laws. Because patents may not completely protect such technology, and because infringement by others which occurs within the confines of their own factories is virtually undetectable, disclosing such technology through patents is not the best way to protect it. Practicing the technology in secret is more effective. This creates the possibility that a second, later U.S. or foreign inventor may obtain a U.S. patent on technology already being commercially used, but which has not been publicly disclosed. This later inventing U.S. or foreign holder of a U.S. patent could then obtain an injunction and prevent the U.S. manufacturer from further use of the invention, even though the U.S. manufacturer had made the benefits of the invention available to the American public through its commercial trade secret use of the invention.

A personal defense against the possibility of an infringement suit by a second inventor offers relief to U.S. manufacturers who, for the reasons mentioned, cannot afford to patent every marginally valuable invention. It also protects those who do not wish to disclose an industrial process in a patent, the enforcement of which is problematic. A prior use defense would allow American manufacturers to commit resources to the commercialization of such inventions without patenting, but with security that a later inventor could not subsequently disrupt their operations.

A prior use defense will also prove very useful in connection with computer program related inventions. The traditional practice of the Patent and Trademark Office had been very restrictive with regard to the granting of patents on computer program-related inventions. The 1996 Proposed Examination Guidelines for Computer-Implemented Inventions adopted by the Patent and Trademark Office recognized that judicial decisions required that this restrictive practice be liberalized. These guidelines foreshadowed the decision of the Court of Appeals for the Federal Circuit in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (1998) which held that a computer program for calculating mutual fund values was patentable subject matter under 35 USC 101. This decision put to rest the notion that "methods of doing business" were not patentable subject matter. Thus, many businesses that eschewed seeking patents for similar subject matter may now find that the techniques they have used as trade secrets in their daily operations are being patented by others, putting them at considerable risk. Moreover, as more individuals seek patents on their computer programs, there is also the possibility that patents will be granted on programs which have been used by others in years past simply because such prior programs are not readily available to the

Patent and Trademark Office for citation in the examination process. Accordingly, the prior use defense of Title II should prove invaluable, especially during such transitions in patentable subject matter.

It is important to note that foreign inventors and manufacturers, though confronted with the same practical problems as their American counterparts, do not face the possibility that a later inventor can obtain a patent and disrupt their home-based manufacturing operations. This is because *virtually all industrialized countries protect their domestic manufacturers with a prior use defense* (See Keith M. Kupferschmid, *Prior User Rights: The Inventor's Lottery Ticket*, 21 AIPLA Quarterly Journal No. 3, (1993)). Thus, while a Japanese or German company with a U.S. patent could preclude the use of an industrial process or a machine used internally by a U.S. company as a trade secret for years before the patent application for the process or machine was even filed, the reverse is not the case. American inventors holding patents in any of our major trading partners could not preclude use of the patented invention by a company which had begun its use of the invention before the American inventor filed a patent application. When 45 % of all U.S. patents are being granted to foreign firms, this unbalanced playing field is, of itself, a strong economic argument in support of Title II. The laws of the United States should protect American jobs and businesses.

Moreover, it must be remembered that, for the great majority of inventions, effective protection can only be realized through the patent system. While protection under trade secret laws is available for certain manufacturing processes and equipment, most inventions can be reverse engineered and copied once they are placed on the market or are otherwise publicly disclosed. Moreover, because trade secret laws generally provide limited protection in comparison to patent law, protection under trade secret laws will rarely be chosen where effective patent protection is available.

The AIPLA support of Title II is predicated on the fact that it provides a carefully crafted, limited prior use defense. The limitations of Title II ensure that U.S. patentees will continue to enjoy their full, exclusive patent rights except in certain rare situations where an earlier-started, domestic commercial use will be allowed to continue under restricted circumstances. We have every confidence that the prior use defense will be rarely used based on experience in other countries having prior use provisions which are more readily available than those which would be established under Title II (See Lise Osterborg, *Towards a Harmonized Prior User Right Within a Common Market System*, 12 Intl. Review Indus. Prop. and Copyright 447 (1981)). However, it is not the *frequency* of use, but the protection against changes in the law through judicial opinions and the elimination of the need to patent every invention that are important.

There are a number of limitations on the establishment of a prior use defense contained in section 273. First, the burden of proving that a person is entitled to the defense is always on the person asserting the defense (273(b)(4)). Moreover, the prior use defense established by Title II is not a general license under all of the claims of the patent in issue: it is a defense only to the claim or claims in the patent which the person asserting the defense had commercially used.

The prior use defense could not be licensed, assigned or transferred to a third party except in connection with the good faith assignment or transfer of the entire portion of the business to which the defense relates (273(b)(6)). Finally, under section 273(b)(3)(B), a person may not assert a prior user defense based on information that was derived from the patentee or those in privity with the patentee.

The scope of proposed new section 273 has even been further restricted from the text offered in H.R. 400, which text was already quite restricted as previously indicated. Section 273, as proposed in H.R. 400, would also have established a personal defense where a person had undertaken "effective and serious preparation" to achieve commercialization of an invention that could not be commercialized without a significant investment of time, money and effort. This feature would have avoided the possibility that a domestic manufacturing firm would spend large sums of money in preparation for commercialization only to be blocked before actual commercialization could be achieved. In an effort to accommodate the concerns of opponents of this provision in H.R. 400, it has been dropped from section 273 in the Committee Print.

Another limitation has been added to section 273 of the Committee Print to clarify the types of inventions which will qualify for the defense. We interpret section 273(b)(3)(A) to mean that only those patentable inventions which can be commercially used as trade secrets can give rise to a prior use defense.

In light of the clear need for a prior use defense to place American businesses on a more equal footing with their foreign competitors, the AIPLA supports enactment of Title II, even with these new limitations to its scope.

Title III—Patent Term Guarantee Act

Section 301 of Title III would amend the provisions of section 154(b) of title 35 which authorize the Director (formerly Commissioner) to extend the term of patents in certain circumstances. It would add two new patent term guarantees to the three existing possibilities for a term extension to compensate for delays in the patent issuance process. One new provision, first included in H.R. 400, would extend the term of a patent up to ten years for administrative delays by the PTO. A second new provision, also found in H.R. 400, would guarantee any diligent applicant a day for day extension for any period longer than three years that the PTO took to issue a patent. It would also extend the maximum period of extension from five to ten years for delays experienced by virtue of successful appellate reviews and would provide for unlimited extensions for delays experienced as a result of interferences and secrecy orders.

The AIPLA strongly supports retaining a patent term of twenty years from filing and endorses the refinements made by Title III. A return to the old law with a patent term measured from grant, as some advocated in the past, would be especially harmful to small, entrepreneurial businesses. A system which allows an inventor to file a broad, conceptual patent application, secretly track the commercial developments of others for years, and then permit a patent to issue purporting to monopolize a mature industry, can seriously disrupt the commercial activities of established corporations. However, when the victim is a small, entrepreneurial enterprise which is struggling to develop its product line and secure markets while repaying venture capitalists, the result can be catastrophic.

In response to concerns by some that the Patent and Trademark Office might be hesitant to admit that it was the cause of an administrative delay, amended section 154(b)(1)(A) sets forth objective criteria for determining when an administrative delay has occurred. These criteria—a "time clock" as some prefer to call it—provide that the Patent and Trademark Office must take certain specified steps within set time limits and that failure to do so constitutes an administrative delay which will result in an extension of the patent for each day the Office was late in taking the step in question. Thus, a first action or notice of allowance must be mailed within 14 months of filing; a response to an applicant's reply must be given within 4 months of the date of receipt of that reply; action following a decision of the Board of Patent Appeals and Interferences or a Federal Court must be taken within 4 months of the date of decision; and a patent must be issued no later than 4 months after the date on which the issue fee was paid.

The guarantee that no diligent patent applicant would receive less than a seventeen year term was added to accommodate those who still feared that, despite their best efforts, they would fail to receive a patent in three years and that the other safety nets would not provide relief. We believe that it is a useful addition because it puts to rest once and for all any question of whether a diligent patent applicant will be able to receive at least seventeen years of exclusive patent rights and yet it will not be subject to the abuses possible with a term measured from grant. There is, Mr. Chairman, simply no valid basis to argue for a return to the previous law and the problems associated with it.

One last word on Title III is in order. Section 303 permits an applicant, upon payment of a fee, to continue the examination of an application under final rejection. It does not, as some have asserted, permit third parties to intervene or participate in the initial examination process. Instead, it allows the applicant to speed-up the examination process by avoiding the filing of a continuing application.

Title IV—Publication of Foreign Filed Applications Act

Section 402 of Title IV of the Committee Print would amend section 122 of Title 35 to provide, with three exceptions, for the publication of each pending application promptly after the expiration of 18 months from its earliest effective filing date. The three exceptions are:

- 1) if the application is subject to a secrecy order,
- 2) if the application is no longer pending in the PTO, or
- 3) if the applicant indicates to the PTO that the invention disclosed in the application will not be the subject of an application that will be filed abroad in a country, or through a treaty, that will result in the application being published at 18 months.

The third exception is a very significant change from H.R. 400 as the Subcommittee reported it in the 105th Congress. It reflects the amendment adopted on the House floor. The AIPLA has long favored 18-month publication of U.S. patent appli-

cations and would prefer not to have a carve-out for applicants only seeking patents in the United States.

Early publication will allow inventors to put others on notice that they have staked out an area of technology, warning them to "keep off." In turn, this no trespassing sign will allow other U.S. inventors to avoid duplicative research and optimize investment decisions in pursuing technological development. Moreover, the inventor who gives this warning through publication is fully protected by provisional rights against anyone foolhardy enough to ignore this warning. The publication of pending patent applications is also a cost effective means of ensuring that United States' inventors will have prompt access—in the English language—to a comprehensive technological database similar to that which foreign inventors in our major trading partners already receive in their language from their regional and national patent offices.

In addition, early publication will assist the Patent and Trademark Office in its examination of patent applications by more effectively placing relevant prior art before examiners. Potential interferences can be identified and provoked by applicants at an early date, avoiding situations where later filed applications issue before earlier filed applications for the same invention. Inventors and companies will be able to receive more complete and accurate patentability assessments in non-infringement opinions since potentially adverse patent rights can be more readily identified and monitored.

Finally, 18-month publication will complement our 20 years-from-filing-patent-term and serve to completely eliminate the adverse consequences of an application that is allowed to languish in secrecy for years in the Patent and Trademark Office before issuing as a patent—to the surprise of an industry built on what had been thought to be public domain technology. Not only will U.S. companies know at a relatively early stage what technology may be the subject of a patent, but they also know when the term of the patent covering that technology will end.

Notwithstanding the strong arguments favoring publication of all U.S. patent applications, the reality is that the House of Representatives and the Senate Judiciary Committee are not prepared to take this step at this time. Arguments that early publication would disadvantage American inventors by disclosing their inventions before patent grant have carried the day. The AIPLA regrets this reality and believes that it will preclude the United States from receiving the full measure of benefits of 18-month publication—but we accept this change and believe that Title IV still provides significant benefits as outlined previously and should be enacted.

The provisional rights protection mentioned earlier is set forth in Section 404 of the Committee Print which adds a new subsection 154(d) to Title 35. Under this new subsection, an inventor, following the grant of his or her patent, would be entitled to a reasonable royalty from anyone who, with actual notice of the published patent application, made, used, offered for sale, sold, or imported into the United States the claimed invention during the period from publication of the application until grant of a patent. This is an important new right for inventors. Today, an inventor has no protection for the use of his or her invention until patent grant. Any inventor marketing an invention after filing a patent application has no protection against a copier until patent grant. This provision eliminates this problem. Inventors seeking to license their inventions could request publication upon filing and be fully protected against the loss of revenue while they sought licensees.

Under subparagraph (2) of new subsection 154(d), a reasonable royalty would be available where an infringed claim of the issued patent is substantially identical to at least one claim in the published application. We believe that the "substantial identity" requirement strikes an appropriate balance; the person seeking to obtain royalties for the use of an invention in a published application should have the obligation of informing the public what he or she believes is the patentable invention. It has been suggested that infringement of a claim of the published application and a claim of the patent would suffice. This more relaxed standard would place an unacceptable burden on the public. It would allow an applicant to include a single, extremely broad claim—even a clearly unpatentable claim—in the published application and then leave it to the applicant's competitors to a) imagine what the applicant might ultimately claim and b) conduct their own private examination to determine whether any such imagined claim that the competitor might infringe would be valid. This would unfairly shift the applicant's responsibility of identifying patentable subject matter to the public, resulting in wasteful and speculative effort. An applicant can adequately protect his or her interests by including an array of claims in an application, ranging from very broad to very specific, so that the published application could provide proper notice to the public by setting forth the information needed to evaluate applicant's claims and to avoid infringing activity.

Two additional amendments have been incorporated into the Committee Print to respond to concerns that were expressed about the publication provisions in H.R. 400. First, while it was acknowledged that provisional rights would compensate inventors for the use of their inventions between publication and grant, there was a desire that injunctive rights also be provided. Proposed new subsection 154(d)(5) answers that desire by permitting the piecemeal granting of a patent for a published application. Under this new provision, as soon as one claim of a published application is allowed, an applicant can request the patent be granted. The remaining claims would be added to the patent as they are approved, but, importantly, the inventor would have an early-granted patent which could be used to enjoin further use of the protected invention.

Another new protection is added by proposed new subsection 122(c). Under current law, there is a procedure under which a third party can file a protest to the issuance of a patent during the examination of an application. To address concerns that publication would increase the instances in which third parties must file such protests, subsection 122(c) precludes any protest or other form of pre-issuance opposition to the grant of a patent unless the applicant consents.

Accordingly, it is clear that, even with the unfortunate carve-out for publication of applications filed only in the United States, there are still advantages for the public and for inventors in the early publication provisions of Title IV.

Title V—Patent Litigation Reduction Act

The APLA strongly supports the amendments which would be made by Title V to permit the public to have limited participation in the reexamination process. The reexamination procedure which the Committee Print would establish will provide a relatively inexpensive alternative to costly district court litigation for patent owners and members of the public to determine the proper scope and coverage of patents. This would be achieved by permitting limited and tightly-controlled participation of the public in the reexamination process.

Where a reexamination proceeding is initiated upon the request of a third party, amended section 305 would give a third party requester one opportunity to file written comments on each response by the patent owner. Amended section 306 would allow either the patent owner or a third party requester to appeal the final decision of an examiner in a reexamination to the Board of Patent Appeals and Interferences (BPAI), and allow each to be a party in an appeal taken by the other to the BPAI. Similarly, it would allow either the patent owner or third party requester to appeal a final decision of the BPAI to the Court of Appeals for the Federal Circuit (CAFC) and, again, each could be a party in an appeal taken by the other.

We have now had nearly 18 years of experience with the existing reexamination system contained in sections 301–307 of Title 35. Its purpose was to provide an avenue for patent owners and third parties to bring to the attention of the Patent and Trademark Office pertinent patents and printed materials which an examiner might not have uncovered during the course of patent examination. It was believed that reexamination would provide an efficient, effective, and relatively inexpensive technique for the Office to consider whether an issued patent should be narrowed, or whether it should not have been issued at all. It was perceived that the reexamination process would thus benefit patent owners, the public, and lessen the burdens on the federal court system.

During the debate on the establishment of the patent reexamination system in the United States, attention was focused on achieving the right balance between, on the one hand, permitting third parties to come forward with evidence and participate in proceedings and, on the other hand, providing patent owners with a means to evaluate the validity of issued patents quickly and inexpensively without undue harassment. In hindsight and with 18 years of experience, we believe that the procedure is not performing as effectively as was envisioned and that a better balance needs to be struck between third party participation in the reexamination and patentees receiving a prompt and inexpensive reexamination. The APLA believes that Title V strikes the needed balance between these competing goals far better than existing law.

While making the reexamination procedure fairer and thus enhancing its prospects for achieving its goals as an effective but inexpensive alternative to litigation, the Committee Print retains the existing safeguards against harassment and adds several more. The Committee Print retains the all important threshold criteria which must be satisfied before a reexamination is initiated: the Director must find that the request for reexamination raises a "substantial new question of patentability" affecting a claim of a patent. Absent such a finding, no reexamination can be initiated. Moreover, the Director's finding in this regard is final and nonappealable. Patentees cannot be harassed by repeated requests for reexamination citing patents

and publications which are merely cumulative to those cited and considered by the examiner during the initial examination.

H.R. 400, as introduced, added a number of additional safeguards and several more have been added during consideration of Title V by the House and Senate Judiciary Committees during the last two years. The Committee Print would amend section 301 of Title 35 so that individuals citing prior art could no longer have their identities excluded from a patent file and remain anonymous. Amended section 302 would require a third party requester to identify the real party in interest. Once reexamination has been ordered, section 308 precludes a third party requestor from filing a subsequent request for reexamination until the earlier reexamination is terminated, unless authorized by the Director. Also under new section 308, if a third party requestor is sued for patent infringement and fails to prove an assertion of invalidity, or if a reexamination proceeding instituted by the requestor is favorable to the patentability of any claim in the patent, that third party cannot thereafter request reexamination on the basis of issues which were or which could have been raised. Finally, if a third party appeals a final decision of the BPAI to the CAFC or participates in such an appeal, that third party would be estopped from later asserting—in any forum—the invalidity of any claim found patentable by the CAFC on any ground the third party raised or could have raised.

With the improvements made by Title V, patent reexamination proceedings will provide members of the public with a more effective administrative procedure to test the scope and validity of patents. These changes will be especially beneficial for small businesses which simply cannot afford to engage in protracted litigation to challenge patent validity in Federal district courts against well-financed patent owners. At the same time, the numerous safeguards that have been added ensure that the procedures cannot be abused: the safeguards will protect small firm patent owners from efforts by well-financed predators to use the improved reexamination procedures as a vehicle for harassment. The system will be fairer to both parties and its use should increase, reducing the burden on the courts.

Notwithstanding the desirability of improved reexamination procedures, the House adopted an amendment which deleted the corresponding Title from H.R. 400 during the floor debate in the 105th Congress. Without Title V, the existing disincentives for third parties to use the inexpensive administrative proceedings in the Patent and Trademark Office to challenge patent validity will remain. A third party that uncovers a patent or publication missed by the examiner during the initial examination will simply hold on to it for use in federal court as a defense to a claim of patent infringement. The patentee will lose the opportunity to learn, in an administrative proceeding, that its patent claims are invalid or perhaps too broad. Instead of having the opportunity of narrowing his or her claims and having them upheld by the Office, a patentee would much more likely be confronted with such references for the first time in federal court where the patentee will spend hundreds of thousands of dollars only to have the patent found invalid. This will clearly impact independent inventors and small businesses most adversely. However, as noted above, the Committee Print contains numerous additional safeguards that we believe are fully responsive to the concerns which were expressed on the House floor during debate on H.R. 400. These additional safeguards will ensure that the procedures will not be abused and that reexamination can achieve its purpose of offering an effective, inexpensive alternative to litigation. We urge adoption of Title V.

Title VI—Patent and Trademark Office Efficiency Act

Title VI seeks to address a number of the problems confronting the PTO by establishing it as an independent agency with greater operational flexibility and independence to more effectively and efficiently serve the patent and trademark communities. While the PTO would be under the policy direction of the Secretary of Commerce, it would not be subject to direction or supervision by the Commerce Department for purposes of internal management, i.e., it would be insulated from micro-management by mid-level bureaucrats in the Department of Commerce.

This arrangement differs substantially from the provisions of both H.R. 400 and S. 507 in the 105th Congress which would have transformed the PTO into a wholly-owned government corporation subject to Chapter 91 of Title 31 of the United States Code. The government corporation concept had been proposed following two in-depth studies by the National Academy for Public Administration—studies which found that the activities of the PTO made it an ideal candidate to become a government corporation. Unfortunately, the government corporation proposal was the target of a great deal of unfounded criticism in the 105th Congress which had little substance. In proposing to make the PTO an independent agency, however, the Committee Print does carry forward many of the operational authorities contained in H.R. 400 and S. 507. For example, the PTO would be permitted to enter into supply

contracts without regard to the Federal Property and Administrative Services Act of 1949, to competitively procure printing services without regard to title 44, and to recruit sufficient numbers of patent and trademark examiners to promptly process the incoming applications without being subject to the personnel limitations which hurt the PTO's pendency reduction efforts in the past.

The IP policy function currently exercised by the Commissioner would remain with the Director and not be assigned to a new position of Under Secretary for Intellectual Property Policy as in H.R. 400 as approved by the House in the 105th Congress. In the Committee Print, the Director would be appointed by the President, and the Director would appoint a Commissioner for Patents and a Commissioner for Trademarks. One of the particularly salutary features of H.R. 400 would be carried forward in the Committee Print: the Director would be required to develop an annual performance agreement with the Secretary, incorporating measurable organizational and individual goals for the key operational areas of the PTO. Based upon the Director's success in achieving the agreed-upon goals, the Director would be eligible for an annual bonus of up to 50 percent of the Director's salary, which could result in a total compensation of approximately \$189,000. The incorporation of a performance plan for the Director along with a requirement in amended section 2(b)(F) to establish regulations that provide for development of a performance-based process with standards for evaluating cost-effectiveness are applauded by the AIPLA. As you are aware, Mr. Chairman, the AIPLA has been spearheading an international effort in which you have been participating aimed at reducing the costs of patenting. Other industrial property offices have been doing a better job on this front than the United States Patent and Trademark Office. The only cost reduction progress made to date by the United States was due to your efforts in pushing through H.R. 3723 in the last Congress. The Committee Print moves the PTO toward the type of performance-based organization championed by the Vice President which would put the PTO's performance—quality as well as costs—in the spotlight. This is a desirable direction.

Section 614 of the Committee Print also increases oversight of the PTO by establishing a 9-member Patent and Trademark Office Public Advisory Committee. The composition of the Advisory Committee will be proportional to the number of patent applications filed by domestic small and large entities. This was requested by the Technology Chairs of the White House Small Business Conference as one of their conditions for supporting the substance of this legislation in the 105th Congress. The Advisory Committee will review the policies, goals, performance, budget and user fees of the PTO and report annually on these matters to the President and the respective Judiciary Committees of Congress. This will enhance the oversight of the PTO and should go far toward assisting the Director in managing the Office.

Again, we understand that political realities sometimes preclude achieving what the AIPLA and others believe would have been a preferable structural reform. Nevertheless, we believe that the insulation of the PTO from meddling by mid-level bureaucrats in the Commerce Department, the increased operational flexibilities, and the enhanced oversight which would be achieved through the Committee Print are desirable improvements and should be adopted.

Title VII—Miscellaneous Patent Provisions

Title VII contains, as its title implies, a number of miscellaneous refinements to the patent law which have been suggested over the years. Section 701 of Title VII amends section 111(b)(5) of Title 35 to enhance the attractiveness of provisional applications by permitting applicants to convert a provisional application into a non-provisional application notwithstanding the absence of a claim. This is a desirable change to the patent law. It would, in essence, allow applicants to expeditiously file a non-provisional application through a simple conversion of a provisional application, without burdening the applicant by requiring the filing of what would essentially be a duplicate of the provisional application. This is a user friendly change which the AIPLA heartily endorses.

Section 706 adopts another amendment requested by the Technology Chairs of the White House Small Business Conference. The provision would amend section 102(g) of Title 35 to eliminate the possibility of that section being interpreted as not precluding the issuance of a patent to a second inventor where the invention was first made by another inventor in a WTO member country.

Section 707 eliminates the problem which can arise when from team research when a patent application covering a portion of the research team's results creates prior art against a later filed patent application covering another portion of the team's results. To avoid that problem today, the earlier and later patent applications must be combined into a single patent application. The exclusion from prior art of prior inventions arising from team research was the subject of a 1984 amendment

to the patent law, but that amendment does not apply when the prior invention is made the subject of a patent application. Section 707 corrects this deficiency, thereby eliminating the need for elaborate and expensive patent procurement strategies that are now required to accomplish the same result.

H.R. 1225, the United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2000

The Patent and Trademark Office has been a target of opportunity for both the President and the Congress since the enactment of the Omnibus Budget Reconciliation Act of 1990 which imposed a surcharge on patent fees. In this decade, the PTO will have collected over \$300 million in patent fees which have been used to support other unrelated government programs. Even when the surcharge was set to expire at the end of Fiscal Year 1998, the addition to using PTO fees as a "petty cash account" for funding other government programs was so ingrained that the President requested Congress to increase the base statutory patent fees to a level that would permit diversion. Thanks to you and the members of your Subcommittee, Mr. Chairman, you resisted that request and actually reduced patent fees for the first time in our Nation's history.

Additions are not easy to cure, however. In the Fiscal Year 2000 Budget, the PTO is once again being singled out for special treatment. Specifically, the President's Budget proposes that the PTO impose a surcharge on patent and trademark fees to raise \$20 million to pay for the accrued personnel costs associated with post-retirement health and life insurance benefits of PTO employees. For reasons which I will explain, the AIPLA strongly opposes the imposition of any surcharge on patent and trademark fees under the current circumstances in which the PTO finds itself. Accordingly, we whole-heartedly endorse H.R. 1225 which would withhold from the Commissioner any authorization to impose a surcharge on patent and trademark fees.

For FY 2000, the President's Budget requests Congress to appropriate (in lay terms, allow the PTO to spend from fees it has collected and will collect) \$902 million for the operations of the PTO. The monies will be derived from \$116 million in PTO fee revenues that will be collected but not spent in the current fiscal year and the balance from PTO fee revenues collected in FY 2000. However, the PTO currently estimates that it will collect \$946 million in FY 2000, so that, with the \$116 million, it will have a total of \$1,062 million—\$160 million more than it currently states it can productively spend in FY 2000. Accordingly, the President's Budget proposes that the \$160 million in excess fees be "carried over" to FY 2001, much the same way that the \$116 million will be carried over from this fiscal year to FY 2000. It is in this context, a situation where the PTO will collect \$160 million more than it needs in FY 2000, that the President's budget proposes that the PTO collect an additional \$20 million to fund post-retirement health and life insurance benefits. Clearly, H.R. 1225 takes the correct path: there should be no \$20 million surcharge while there is a \$160 million surplus of PTO revenue in FY 2000; the \$20 million should be taken from the surplus.

Finally, one word of caution. If the PTO is not authorized to impose a surcharge on patent and trademark fees to raise the desired \$20 million, there could be an effort to raise the funds to pay the post-retirement benefits by reducing the PTO's operating budget by \$20 million. If this possibility gains any momentum in the appropriations process, the AIPLA would strongly urge that H.R. 1225 be amended to totally block the transfer of any funds from the PTO to pay for such health and life insurance benefits. The PTO must be adequately funded to carry out its important role of stimulating the American high technology and business communities through the timely grant and registration of reliable patents and trademarks. It is time to stop abusing the PTO and its users as sources for special financial contributions, i.e., taxes, not requested of other fee-funded government agencies.

Conclusion

The Committee Print would provide sorely needed improvements in America's patent laws and in the functioning of its patent system. It is important that this legislation be enacted promptly. The United States faces intense economic competition, especially in the technology arena, with all of our major trading partners. Our success in this competition may depend on whether, relative to our trading partners, we find the means to best stimulate innovation and best protect the creativity of our citizens. The changes that the Committee Print would make in the U.S. patent laws will go far toward assuring that the U.S. creative community can continue its leading role in creating, developing, and commercializing cutting edge products and services. H.R. 1225 will stop the Administration from abusing the funding authority of the PTO and set the proper tone for the international effort to reduce patenting

costs. The AIPLA supports both measures and urges that they be favorably reported and promptly sent to the full House for a vote.

Mr. COBLE. Thank you Mr. Kirk. Mr. Muller.

**STATEMENT OF KIM L. MULLER, VICE PRESIDENT,
INTERNATIONAL TRADEMARK ASSOCIATION**

Mr. MULLER. Good afternoon, Mr. Chairman.

The International Trademark Association, an organization of 37,000 trademark owners and practitioners, is pleased to be here today to support your efforts in making the PTO a more efficient and customer friendly agency.

We, like you, believe that in order for America to maintain a leadership position in the global economy of the 21st Century, there must be safeguards to protect the Nation's greatest strengths, its ideas, and ingenuity; in short, its intellectual property.

The American Inventors Act, the bill before us today, is intended to do just that: make intellectual property a vehicle for American leadership on the global economic stage. My comments will be directed toward the provisions of title VI, collectively known as the Patent and Trademark Office Efficiency Act, properly designed to free the PTO from the bureaucratic red tape that has so often prevented it from providing its customers with the best possible service.

Under the able leadership of Acting Commissioner Todd Dickinson, the PTO has committed to implement an integrated agency-wide Quality Improvement Program to satisfy customer needs. For trademarks, the PTO will expand its investment in new technology designed to improve searches and work with trademark owners to set and achieve new standards of quality for the examination of trademark applications. However, Commissioner Dickinson and his team at the PTO cannot obtain these goals unless Congress provides a viable means for them to do so.

The PTO Efficiency Act is definitely a step in the right direction, recognizing the need for the PTO to run as a private enterprise, meeting the needs of its customers who fund it, so it can survive and prosper to meet future challenges.

In particular, we are pleased to see that the bill establishes the new PTO as an independent agency of the United States. We hope this will help block efforts to transfer the agency's funds, which are derived entirely from user fees to unrelated programs within the Department of Commerce or elsewhere within the Government.

We were also encouraged by language that would allow the new PTO to acquire property without the obstacles it now encounters. The fact that there are fewer restrictions on the acquisition of real property will be especially welcome since the PTO has recently acknowledged that it may not have enough space for all its new hires.

There are aspects of the proposed organization and management of the new PTO as contained in your bill that deserves praise as well. Take for example the proposed incentive program to retain qualified employees and the Annual Performance Agreement for the leadership of the agency. These programs are similar to what we see in private enterprise.

Finally, Mr. Chairman, INTA is pleased that you have chosen to incorporate a consultive mechanism between leadership of the new U.S. PTO and the intellectual property community. This concept of a Public Advisory Committee is crucial to maintain open lines of communication between leadership of this new agency and the customer who will benefit from its services. However, in section 614, there is not included a trademark representative, only representative of patent applications. We assume that this was an unintended oversight.

INTA fully supports your efforts, but INTA also proposes constructive amendments to the bill to recognize the important role that trademarks play in our U.S. economy. These amendments are not controversial and reflect our view that patents and trademarks are not the same and what is good for one is not always good for the other. For example, the patent right and the trademark right find their respective genesis in different constitutional articles.

One right is finite, the other indefinite, as long as use continues. These suggested proposals can be outlined as follows: one, designate a Commissioner for Trademarks as the person charged with solely managing trademark operations; two, provide a Commissioner for Trademarks with a level of discretion concerning her administration of the Trademark Office; three, establish the patent and trademark side of the agency as separate administrative units; four, strengthen existing provisions that protect trademark fees from users beyond trademark operations and policy initiatives; and, five, create two separate public advisory committees, one for patent and one for trademarks.

We believe these proposals will strengthen the bill to provide the Trademark Office within the new U.S. PTO a greater level of autonomy and responsibility for its own administrative, financial, and personnel matters. I come to the close of my statement now, Mr. Chairman.

On behalf of the International Trademark Association, I once again thank you for the opportunity to express our views. INTA looks forward to continuing to work with this subcommittee and its staff to guarantee that the PTO, in particular trademark operations, are accorded the property treatment in light of the important roles trademarks play in the U.S. economy. Thank you, Mr. Chairman.

[The prepared statement of Mr. Muller follows:]

PREPARED STATEMENT OF KIM L. MULLER, VICE PRESIDENT, INTERNATIONAL
TRADEMARK ASSOCIATION

INTRODUCTION

Good morning, Mr. Chairman. The International Trademark Association ("INTA") appreciates the opportunity to appear before you today to offer comments on H.R. _____, the "American Inventors Protection Act." Our comments today will focus solely on Title VI of the bill, which is entitled the "Patent and Trademark Office Efficiency Act." INTA expresses no opinion with regard to those provisions of the bill relating to substantive patent law issues.

INTA is pleased that you have once again introduced legislation, which, in part, is designed to free the United States Patent and Trademark Office ("USPTO") from the bureaucratic "red tape" that has so often prevented it from providing its customers with the best possible service. To the members of the trademark community, it demonstrates your unswerving commitment to improving the operations and strategic planning at the USPTO—ensuring that it meets the needs of its customers in

the new millennium. We look forward to working with you and your staff, as well as Ranking Member Berman and his staff, in the 106th Congress with respect to this initiative and the rest of the trademark agenda.

In particular, INTA would like to work with the Congress to guarantee that the trademark operations at the USPTO are accorded proper treatment in light of the important role trademarks play in the U.S. and global economies. There is also the need to protect trademark user-fees from siphoning and diversion to unrelated agencies within the federal government. Therefore, Mr. Chairman, we are here today not only to support your efforts at making the USPTO more efficient, but to propose taking H.R. _____ a step further by providing the Trademark Office in particular with even more autonomy in its daily operations, as well as in long-term strategic and policy related planning.

Accordingly, we will propose additional provisions to the bill that accomplish the following:

- create two *separate public advisory committees*—one for patents, the other for trademarks;
- designate the Commissioner for Trademarks as the person charged with *managing trademark operations*;
- strengthen existing provisions that *protect trademark fees* from uses beyond trademark operations and policy initiatives;
- provide the Commissioner for Trademarks with a *level of discretion* concerning his/her administration of the Trademark Office;
- establish the patent and trademark sides of the Agency as *separate administrative units*.

ABOUT INTA

My name is Kim Muller and I am Senior Trademark Counsel for Shell Oil Company in Houston, Texas. I presently serve as Vice President for the INTA Trademark Affairs and Policies Group and as a member of the Association's Board of Directors. Like all officers, board members, committee chairpersons and committee members, I serve on a voluntary basis.

INTA is a 120-year-old not-for-profit membership organization. Since its founding in 1878, membership has grown from 17 New York-based manufacturers to approximately 3,700 members from the United States and 119 additional countries.

Membership in INTA is open to trademark owners and those who serve trademark owners. Its members are corporations, advertising agencies, professional and trade associations, and law firms practicing trademark law. INTA's membership is diverse, crossing all industry lines and spanning a broad range of manufacturing, retail and service operations. All of INTA's members, regardless of their size or international scope, share a common interest in trademarks and a recognition of the importance of trademarks to their owners, to the general public, and to the economy of the United States and the global marketplace.

VALUE OF TRADEMARKS

Trademarks are the names or symbols, sometimes referred to as brands, by which we come to identify products and services, and identify them in the marketplace. They are a basic mode of communication, a means for a company to convey a message of quality, consistency, safety, and predictability to the consumer in an easy-to-understand form. Consumers use trademarks to identify quality products and protect themselves and their families from inferior products and from fraud or deception when making important purchasing decisions.

TRADEMARKS AT THE USPTO: TODAY AND TOMORROW

INTA is pleased with the USPTO's renewed emphasis on the trademark registration process. This has brought needed attention to policy initiatives that have improved that process as well as focused the spotlight on the concerns of trademark owners and their representatives concerning the future of the Agency. For example, efforts are underway to implement the Trademark Law Treaty, an agreement that would have never become a reality in the United States were it not for your tireless efforts, Mr. Chairman. Elsewhere in the Agency, electronic filing of trademark applications is now a reality, taking the PTO to the next level of technology in the important task of processing trademark applications. We understand from personnel at the Agency, that e-filing has been a tremendous success.

As you know, this emphasis on trademarks was not always the case. Not so long ago, trademark operations were referred to as the "stepchild" of the Agency—often overlooked in favor of patent or even copyright matters.

We are, therefore, encouraged by the new direction taken by the Agency, under the able leadership of Acting Commissioner Q. Todd Dickinson, who has committed to "implement an integrated, agency-wide quality improvement program to satisfy customer needs."¹ For trademarks, the USPTO will expand its investment in new technology designed to improve searches and work with trademark owners to "set and achieve" new standards of quality for the examination of trademark applications.² Specific examples of new uses of technology include:

- Submission of trademark applications and all follow-up papers via the Internet.
- Electronic correspondence with trademark attorneys during the prosecution of their applications.
- Timely and accurate reception of information related to changes in policies, processes, fees, etc.³

These advances in technology should result in faster and more efficient examination of trademark applications, a goal INTA has long sought.

There are other parts of the USPTO corporate plan that are worth mentioning; specifically, the focus on customer/employee relations, another area which has been a cause for concern in the past. The USPTO has committed to spend funds to improve trademark examiners' training (with an emphasis on matters of substantive trademark law) and communications with trademark applicants (for example, providing clear and concise answers to applicants and/or their counsel).⁴

PROVIDING THE TOOLS FOR A BETTER AND MORE "EFFICIENT" USPTO

We are indeed pleased with the changes occurring at the USPTO. However, the goals of the Trademark Office and, for that matter, the Patent Office, cannot be completely realized until structural changes are made that will free the Agency from the weight of governmental bureaucracy thereby allowing it to operate more like a customer-oriented business. Unlike the majority of governmental agencies, the USPTO is entirely user-funded. That is to say, the Agency attends to its important responsibilities without the assistance of a single penny of taxpayer money.⁵ The money used to support operations, policy development, and long-range planning of the USPTO is provided solely by patent and trademark owners. Also, unlike most other agencies, the USPTO has a very narrow and specific mission: the registration and maintenance of intellectual property.

The nature of this mission and user-based funding mechanism requires that the USPTO be operated in a manner that is similar to a private sector business. This includes:

- a mechanism for the reinvestment of the money it makes in new ideas and technology in order to remain competitive;
- the acquisition of additional space to accommodate a growing workforce; and
- the ability to engage in multi-year budgeting without being forced to give up excess fee revenues collected one year that should be held in reserve for long-range planning and unexpected contingencies.

What we want, Mr. Chairman, is an intellectual property agency that provides its customers with quality service—essentially giving them "the most bang for their buck."

The bill before us today, specifically Title VI, is a significant step in the right direction. Its very name, the "Patent and Trademark Office *Efficiency Act*" (emphasis added), recognizes the need for America's intellectual property to be administered in an organized and "efficient" business-like manner so entities that own trademarks can prosper in the 21st Century.

INTA is pleased to see, for example, that the bill establishes the USPTO as an independent agency of the United States. This will, we hope, take the USPTO off

¹ United States, U.S. Patent and Trademark Office, *Fiscal Year 2000 Corporate Plan: Briefing for the International Trademark Association* (February 16, 1999), 11 [hereinafter referred to as "USPTO"].

² USPTO, 11.

³ USPTO, 24.

⁴ Department of Commerce, 51–52.

⁵ United States, General Accounting Office, *Intellectual Property: Fees Are Not Always Commensurate With the Costs of Services* (Washington: GAO, May, 1997), 32.

of the "books" of the Department of Commerce and help to block efforts to transfer the Agency's money to unrelated programs within the Department or elsewhere within the federal government. It will also free the Agency from many of the bureaucratic requirements that impede its ability to conduct business efficiently.

We are also encouraged by language that would allow the new USPTO to acquire the goods and services it requires to provide upgraded quality without the hindrance it now encounters. In particular, the bill permits the proposed reorganized USPTO to "acquire, construct, purchase, lease, hold, manage, operate, improve, alter, and renovate any real, personal, or mixed property, or any interest therein, as it considers necessary to carry out its functions."⁶ This is crucial because finding space to house the new hires at the Trademark Office is becoming an increasingly difficult problem. Consequently, the Agency's ability to realize its goals is threatened.

There are aspects of the proposed "Organization and Management" of the new USPTO, as contained in your bill, Mr. Chairman, that deserve praise as well.⁷ Take, for example, the concept of an "annual performance agreement" for the leadership of the Agency.⁸ The nature of this agreement is akin to something we would see in the private sector. There is also a proposed incentive program to retain qualified employees.⁹ The goals for a better American intellectual property system cannot be realized if qualified, experienced personnel are continually lost due to inadequate incentives.

Finally, Mr. Chairman, INTA is pleased that you have chosen to incorporate a consultative mechanism between the leadership of the new USPTO and the intellectual property community. The concept of a "Public Advisory Committee," as contained in Section 614 of the bill, is crucial to maintaining open lines of communication between the leadership of the Agency and the customers who benefit from its services. We are even more encouraged by the requirement that the Public Advisory Committee you propose be consulted by the Agency not only on operational issues that affect the practice of intellectual property law, but budgetary and policy matters as well.

AN AUTONOMOUS TRADEMARK OFFICE

The discussion of the single "Patent and Trademark Office Public Advisory Committee," as proposed in Title VI of the bill, actually provides us with an opportunity to begin addressing the ways in which INTA believes the bill can be strengthened to provide the Trademark Office within the new USPTO a greater level of autonomy and responsibility for its own administrative, financial, and personnel matters. The fact is, Mr. Chairman, patent law and trademark law have very little in common with one another in terms of substance, operations, or policy development. Not only is the constitutional genesis of patents and trademarks entirely different, but they also serve completely separate societal functions.

Patent laws are designed to advance technological progress through publication of new and useful inventions. Trademark laws, on the other hand, are intended to promote the national economy by encouraging the production of quality products and the protection of consumers from fraud and deception. In short, what is good for one is not always good for the other. We have therefore, as I outlined earlier, prepared a series of proposed amendments to provide for a more autonomous Trademark Office within the new USPTO.

First, we propose that there be two separate public advisory committees—one for patents and the other for trademarks. For our purposes, the trademark body should have the same responsibilities as the unified committee that is in the current bill, but instead devote all of its time and attention to the Trademark Office budget. This will, in our opinion, improve operations in the Trademark Office and strengthen ties between the trademark community and the personnel who examine and register trademarks at the Agency. The members of this advisory committee should be required to have first-hand knowledge of trademark issues. Only with a separate advisory committee can trademark issues be given the focus and attention they require.

Second, we think it is critical to the concept of an autonomous Trademark Office that the law clearly designate the Commissioner for Trademarks as the person charged with managing trademark operations. After all, the individual closest to the issues should be the one charged by law with managing them.

Third, mechanisms to fortify the fence around money raised through trademark user-fees should be put in place. The current provision, 35 U.S.C. 42(c), has been

⁶"American Inventors Protection Act," Title VI, §612 (b)(3) [hereinafter referred to as Title VI].

⁷Title VI, § 613.

⁸Title VI, § 613 (a)(5).

⁹Title VI, § 613 (b)(3).

open to troubling interpretation by some, leading to attempts to siphon money away from the Trademark Office for use by other government agencies or in programs designed to only benefit the patent operation.

Fourth, the Commissioner for Trademarks should be given a degree of discretion in operating the Trademark Office. With the approval of the Trademark Office Management Advisory Board and in consultation with the Director of the USPTO, the Commissioner should be permitted to implement new policies and operational measures that best serve the needs of that particular office.

Fifth, and perhaps most importantly, the bill should be amended to state unequivocally that the patent side of the office and the trademark side are *separate administrative units*. This would greatly enhance trademark operations, allowing the Office to devote its attention and resources solely on the trademark agenda. It would also serve to insulate trademark user-fees for programs and improvements to the Trademark Office and prevent siphoning of monies to the patent side.

CONCLUSION

Once, again, Mr. Chairman, INTA thanks you for the opportunity to participate in the legislative process. If history is any measure of what is to come, then we will no doubt face obstacles concerning the outcome of this legislation. However, we at INTA believe that a joint effort by the private sector and the Congress will lead to positive and measurable results. We look forward to working with you and members of your staff to incorporate our recommended changes to the bill, ensuring that the Trademark Office can attain the highest standards of efficiency and excellence.

Mr. COBLE. Thank you Mr. Muller. You will be pleased to know, I am sure, that the omission was indeed unintended. I am confident that can be corrected to your satisfaction. Mr. Ludlam.

STATEMENT OF CHARLES E. LUDLAM, VICE PRESIDENT FOR GOVERNMENTAL RELATIONS, BIOTECHNOLOGY INDUSTRY ORGANIZATION

Mr. LUDLAM. I am here representing the most capital intensive, the most research intensive, and probably the most intellectual property intensive industry in the world, the biotechnology industry.

The only issue I am going to address is the patent term provision of the bill. I am happy to answer questions on any other provisions as well.

We have been working on the GATT patent term issue since March 1994. This is our fifth anniversary of working on this issue.

The pending bill includes critical protections to ensure that the term of the patent, especially for the biotechnology industry, is not shortened due to delays that are beyond the control of the applicant.

We enthusiastically support these amendments. They will provide that every type of delay at the PTO, as long as it is not caused by the applicant, will lead to restoration of patent term, if the application process drags on.

So, it protects a diligent applicant without giving any solace to a dilatory applicant. This is the perfect resolution to the controversy and it obviates any need to return to the old 17-year fixed term.

The reason why this is so valuable to the biotechnology industry is simple. We have the longest pendencies and the most delays. In fact, it would be likely under the current law that the real breakthrough patents would likely be the ones with the shortest patent term because they would be the longest ones in terms of pendency at the PTO.

What we have in this bill will literally restore thousands of years, tens of thousands of years, that otherwise would be lost for biotech patents. The restored years will encourage investors to back this vital technology.

You are now, because you are passing this bill, all an indispensable part of the biomedical research process. You are all, in fact, saving lives with this bill.

I know it is just a draft bill. I do not want to jinx the negotiations that are currently going on. But, I do not think it is too early to thank some of the people who have led us to the point. We are very optimistic that a final agreement will be reached. We might not have another chance in public to thank the people who are responsible for the progress that we are making and for the enactment of this bill, we think, perhaps in this session of Congress.

Congressman Rohrabacher addressed the issue raised by the 20-year term over a long period of time, and basically said an environment where all of the protection in this bill became the alternative to going back to the 17-year term. He has played a critical role in identifying a critical issue.

When we get around to finally enacting the bill, I think every applicant who has restored time at the PTO for delays should thank him for his efforts.

Mr. Chairman, you and the previous chairman, Mr. Morehead, have shown incredible diligence and patience in this process, tremendous professionalism in sticking with it even at very acrimonious times, and have been very solicitous of all of our interests and all of the competing players.

The same is true for the Ranking Members. It has been a truly bipartisan effort with Mr. Frank and Mr. Berman.

I was a staffer up here on the Hill for 16 years. Maybe I recognize from that experience that the best members often have the best staff. I think that has been true in this case as well.

The members of this subcommittee have stuck together in a brilliant effort as a group. Mr. Goodlatte and Ms. Lofgren especially were tenacious during the Floor debate in 1997, but all of the members were helpful; Mr. Hyde and Mr. Conyers as well.

Without your resolute support, we would not be at the point we are today about to pass an historic reform of the patent system.

Mr. Dickinson has arrived at exactly the right time, with exactly the right tone, and exactly the right outreach to all of the affected people.

We look forward to working with him to implement the law when it is passed. We have already determined that we will enthusiastically endorse him when his nomination for the Commissioner position goes forward. We are happy to work with you and with him to make sure that all of the titles of the bill, especially the patent term title, are easy to administer.

In the end, we will do anything we can to help you expedite the passage of the bill and to make sure you get the credit you deserve for the fine efforts that you are undertaking here.

I will just close with one final comment. This bill is the perfect answer to the delays at the PTO. You are providing day-for-day restoration for time lost at the PTO which comes out of the patent term, as long as the applicant was not at fault. Well, that solves

the problem with the GATT patent term, but we also have delays at the FDA. The answer you have provided here of day-for-day restoration is exactly the same answer you ought to provide when we get around to the Hatch-Waxman Act.

Applicants should not be penalized when they are required to secure the approval of the Government and the Government process takes a long time. That should not erode patent term. That is a principle in this bill. That is a principle that ought to apply when we get around to the delays at the FDA.

Thank you very much.

[The prepared statement of Mr. Ludlam follows:]

PREPARED STATEMENT OF CHARLES E. LUDLAM, VICE PRESIDENT FOR
GOVERNMENTAL RELATIONS, BIOTECHNOLOGY INDUSTRY ORGANIZATION

SUMMARY

BIO supports amendments to the patent law that, above all, *ensure that diligent patent applicants are not penalized for delays which are beyond their control*. BIO has been working in support of amendments that will preserve the full term of protection for biotechnology inventions for five years and we now see that with the leadership of the Chairman and members of this Subcommittee the prospect of these amendments becoming law. The package being proposed by Chairman Coble and members of this Subcommittee includes amendments that will compensate diligent patent applicants for time they would lose during the application process, and will make much-needed enhancements to our patent system to improve its operation. We strongly support this package of legislation, because we believe it will enable the biotechnology industry to develop cures and therapies for deadly and disabling diseases.

The proposed legislation has a number of provisions. I will limit my comments today to patent term restoration for administrative delays, reexamination reform, publication of applications with provisional rights and patent office reform.

- **Patent term restoration.** The effective term of a patent is of vital interest to the biotechnology industry. There may be no industry which is more dependent on an effective term of protection than the biotechnology industry. Any law that undermines the ability of biotechnology companies to secure patents with a full term of protection will undermine funding for research on deadly, disabling and costly diseases. Simply put, capital will not be invested in biotechnology companies if they are not able to secure an adequate term of protection during which they will be able recoup the substantial investments needed to develop new products.
- My testimony outlines five specific concepts that must be kept in mind when drafting amendments that will guarantee a full patent term for biotechnology companies and other inventors. These are the concepts found in the Chairman's proposed legislation. They are: (1) when a delay is out of the control of the patent applicant, the applicant does not lose out on patent term; (2) the determination of the amount of patent term extension must be done in an objective, ministerial fashion; (3) patent applicants will not be penalized by electing to appeal Patent Office decisions, including on claim scope; (4) patent applicants will not be penalized by a decision to refile an application or pursue applications that expand on an original disclosure, and (5) patent term extensions cannot be challenged long after a patent issues, and thus patents can be relied upon by their owner for investment and other decisions.
- **Publication of applications.** We support publication of applications without exception at 18 months from the filing date. We recognize that compromises must be made to address concerns from certain parts of the patent community, but hope that such compromises will not prevent information on new inventions from reaching the public in a timely manner. We support inclusion of protections such as provisional rights and other measures that will prevent third parties from harming the interests of the patent applicant before a patent is granted.
- **Patent Office reform.** We support efforts to improve the operations of the Patent and Trademark Office. Given our dependence on patent protection, it comes as no surprise that we support any steps that will enhance the oper-

ations of the Office, and therefore, the quality of examination of patent applications.

- *Reexamination reform.* We support enhancement of the current reexamination system to enable more extensive but controlled participation by third parties.

The patent law can be amended—and is amended by the Chairman's bill—so that all legitimate concerns about the 20 year term can be resolved. That is, innovators can be assured that if they put time and effort into developing an invention and are willing to diligently prosecute their patent applications, they will be sure to receive a patent term of at least 17 years, without giving harbor to those who seek to manipulate the patent system. With the other measures in the package, the Chairman's proposal will provide a fair balance of competing concerns and it should be enacted into law as soon as possible.

STATEMENT

My name is Chuck Ludlam¹ and I am Vice President for Government Relations for BIO. I appreciate the opportunity to appear here today to testify on behalf of the biotechnology industry in support of the patent reform package being proposed by the Chairman.

The Bottom-Line

Patent reform is a critical issue for our industry and for the entire entrepreneurial sector. Our industry, perhaps more than any other, needs a patent system that functions efficiently and provides effective and clear rights for an commercially viable and justifiable period. Our products are often many years from being commercialized, which means that we need patents that cannot be challenged once investments have been made, and that will yield an effective term of protection.

The current patent system is not living up the tasks before it. We need a Patent and Trademark Office, and patent procedures, that can produce timely and valid patent grants with a higher degree of quality than is possible to deliver under the current structure of the Office. We need better and earlier information on where research is being directed to ensure that we direct our research efforts and funds intelligently. We also need procedures that give us a chance to vigorously test the validity of patents without having to resort to litigation in the Federal courts. Most of all, however, we need a system where we will not be inhibited in our effort to vigorously pursue full patent protection, or will be penalized by PTO delays in processing our applications.

I believe Chairman Coble appreciates these points. His legislative proposal would address nearly all of our points of concern with the present regime. We support and commend his efforts over the past few years to identify sources of concern and address them. We believe his proposals are very well grounded and deserving of our support. If this legislative package is enacted into law, it will go a long way to addressing our concerns with the current regime. My comments today will address the points raised by the legislation that are of particular interest to BIO.

Guaranteeing an Effective Term of Protection for Diligent Applicants

The biotechnology industry and BIO fully support a patent term based on the current system of 20 years of protection from the filing date of the application. However, we believe it is critically important to ensure that this system include safeguards that *will ensure that diligent patent applicants are not penalized for delays which are beyond their control*. The present law does not address certain situations where the effective term of protection can be reduced through no fault of the patent applicant. We believe that the proposals being advanced by Chairman Coble in this draft would deliver the same effective term as was provided under the old 17 year from grant date system, but would retain the benefit of not presenting opportunities for late-issue, submarine patents. We wholeheartedly support these amendments.

We believe that these amendments provide real and comprehensive protections for diligent patent applicants. They ensure that no diligent applicant will ever lose patent term for delays which are beyond their control. This is the definitive answer to those who argue that the only solution is to return to a guaranteed 17 year minimum patent term from grant. These guarantees against the loss of patent term for diligent applicants provide incentives for long term investment in research and development in high risk areas of research like biotechnology.

¹ Mr. Ludlam has served as BIO's Vice President for Government Relations since BIO was founded in July, 1993. Prior to this he served as legal counsel to House and Senate Committees and Subcommittees from 1975-1979 and 1982-1993, counsel to the White House from 1979-1981, and trial attorney at the Federal Trade Commission from 1972-1975.

There may be no industry which is more sensitive to the length of the term of a patent than the biotechnology industry. The rate of investment in research and development in this industry is higher than in any other industry. *A law which protects the ability of biotechnology companies to secure patent protection for an effective term—as provided in the Chairman's proposal—will support investors and others who provide the funding for research on deadly, disabling and costly diseases.* Just as no one would invest money to improve a building without knowing how long the lease was, capital will not be invested in biotechnology companies if they are not able to secure a term of protection that will ensure that they have time to recoup the investments they must make in developing a product for market.

To correct the disincentive for investment in research and development caused by a reduced patent term and an uncertain patent term, amendments are needed to ensure that delays in issuing patents do not penalize diligent patent applicants. BIO has identified the key considerations that are essential to maximize the benefit of the patent laws for the biotechnology industry and finds that all of them are addressed in the Chairman's bill.

Patents and Capital Formation

To understand our industry's position on the patent term issue and what we consider the key concerns, one must understand one simple fact about the biotechnology industry; most of our firms fund research on deadly and disabling diseases from equity capital, not revenue from product sales. Without investors taking the risk of buying the stock of our companies, much of our vital research would end.

In most industries, banks can finance the operation of a business, by securing the debt with equipment, by taking a security interest in receivables, or by taking an interest in a revenue stream. None of these assets are typically present in a biotech company. Equipment, has very little secondary market, and is a small fraction of the cost of doing business, and biotech companies sell few products and therefore can not sell interest in revenue streams or receivables.

In the absence of these assets, biotech companies are forced to sell equity to raise capital. For a biotech company to raise money in the equity market clear indications about how that money will be spent and how money will be made in the future are needed. A decision on buying a piece of a business is dependent on calculating a value of the company, which in turn is estimated based upon how much money a company will make, when it will make it, and for how long it will make that money. This value is then discounted into net present value and discounted for risk. The biotechnology industry exists because the astronomical sunk costs are followed by sales of goods with high margins. Margins in the biotechnology industry are protected by patents, and consequently, patents are a pre-requisite for raising equity capital. As the value is dependent upon how long the patent protects the margins an uncertain patent term, adds additional risk which in turn discounts the value of the enterprise and decreases the amount of money that can be raised.

Without adequate protection for biotechnology inventions, investors will not provide capital to fund research as the future value will be overwhelmed by the costs. There is substantial risk and expense associated with biotechnology research and investors need to know that the inventions of our companies cannot be pirated by our competitors. Therefore, less patent protection means less biomedical research.

A June 1994 report by Dr. David H. Austin of Resources for the Future² specifically documents the vital economic importance of intellectual property protection and its relationship to research expenditures, including the value of patents, and their effect on competing companies and on the biotechnology industry in particular.

The results of Dr. Austin's study indicate that there is a significant reaction in the stock market when certain broad types of patents issue. When a patent is listed in the *Wall Street Journal*, it positively affects the value of the stock for the company receiving the patent, and negatively affects the stock price of competitors to that company. The report found that there is a positive correlation between stock price, when a patent is filed and issued, and research and development expenditures. In addition, the report indicates that the granting of an important patent appears to raise the net value of the entire industry.

Key Elements for an Effective Patent Term

The importance of predictability and length of patent term to this industry results in five central issues that we hope are considered when evaluating the prospect for recovery of lost patent term. They are that:

²"Estimating Patent Value and Rivalry Effects: An Event Study of Biotechnology Patents," Dr. David H. Austin, Fellow at Resources for the Future (RFF)(Washington, D.C.), Discussion Paper 94-36 (June 1994).

- (1) when a delay is not within the control of the patent applicant, the applicant does not see patent term erosion;
- (2) the determination of the amount of patent term extension must be done in an objective, ministerial fashion not susceptible itself to delays and complications, and not subject to challenges by third parties;
- (3) patent applicants will not be penalized by being subjected to a choice between loss of effective term of protection or of concessions on claim scope when the Patent Office fails to grant patents or claims of appropriate scope;
- (4) a decision to continue to prosecute an application will not require the applicant to abandon his ability to recover any measure of patent term restoration, due to an essentially ministerial step; and
- (5) patent term extensions must not be subject to change long after the patent issues, and thus can be relied upon by the company for investment and other decisions.

The Chairman's draft legislation addresses to a varying degree each of these considerations.

1. No patent term erosion because of delays outside the control of the patentee

Applicants for patents on biotechnology inventions—from the National Institutes of Health, university and foundation grantees of NIH, independent research foundations, and the biotechnology and pharmaceutical industries—experience unusually long administrative delays in the processing of patent applications at the PTO. Although the PTO has taken steps to address some of the causes of these problems, pendency as measured by the PTO has yet to be reduced by these steps. The PTO actually reported an *increase* in pendency of applications within the biotechnology group last year compared to the previous year. Although BIO applauds the significant steps that the PTO's biotechnology group has taken to speed the issuance of patents these steps have not yet helped eliminate the delays.

Comparing current law to the pre-GATT 17 year patent term reveals biotechnology inventors see a decreased effective patent term. Professor Lemley from the University of Texas School of Law studied the effect of the GATT changes on the patent term. Although Professor Lemley did not make any conclusions regarding the patent term of biotechnology inventions (one way or the other), the data presented in his paper makes it quite clear that biotechnology industry would have patents that loose patent term³. Professor Lemley states:

Under the old law, the biotechnology patents had an average term of 6077 days, the average time spent in prosecution was 1,599 days giving the average 5,706 days of protection under the new law.⁴

The one year loss in patent term (6077 days old law—5706 days under the new law—a loss of 371 days) understates the facts. We anticipate that a large percent of patent applicants will lose an even larger portion of the patent term. This net loss of patent term will hit an industry which may be the most dependent on patent protection and where the loss of patent term will be especially devastating.

Although the loss of a year of patent term would be significant to any industry the averaging of patent term understates the problem of the erosion of patent term for some BIO member companies. Biotechnology companies are small. The small size is often reflected in that their entire research and drug development program is protected by just a couple patents. The small number of patents that protect a given companies research means that a decrease in one patent term is not offset by other longer patent terms in other patents and, therefore, a large decrease in even a small fraction of the patents will necessarily limit these companies ability to do important research towards cures of devastating and disabling diseases.

There must be protection against this loss of patent term. A mechanism must be in place to insure, in an objective fashion, that the patentee can control the patent term. Caps on these recoveries act in direct contradiction to these goals as in some instance they incent the delay by those who benefit from a patent not issuing. There is absolutely no reason based on principle which justifies these parties losing patent term when the PTO is in control of the patent application throughout this period. It would be patently unfair and confiscatory to reduce their patent term simply because they were involved in protracted processes such as interferences or appeals.

³ Volume 22, American Intellectual Property Law Association Quarterly Journal (Nov. 1995).

⁴ See page 32. Professor Lemley suggests that because of the new law the prosecution times will be reduced by 20%, under the new law, Professor Lemley's data still indicates that the average biotechnology patent will still loose patent term.

This issue is addressed decisively in the Chairman's bill. Diligent applicants are given day-for-day compensation for time lost due to PTO delays that are beyond the applicant's control.

2. Determination of patent term extension must be done in an objective fashion and through a simple, ministerial review process that is not susceptible of abuse

The determination of the extension must be objective, speedy and not subject to complex procedures or legal challenges. With a discretionary, subjective standard there will always be substantial interpretation required to determine the equities in an individual case. Lots of paper will be exchanged between applicants and the PTO, and the PTO would have to justify its determinations in writing. And, since many of the decisions would be made under a discretionary, subjective standard, patent term restoration calculations would be a routinely litigated event. This is a nightmare both for the PTO and for applicants.

The key issue for compensation for delays, is whether applicants are losing patent term for reasons which are beyond their control. An objective standard eliminates this uncertainty. One suggestion has been made that the compensation could be computed by a mechanism like a chess clock.

Chess clocks have two clocks, one for each player. There is a mechanism to ensure that only one clock will be running at any given time. The clock which is running is the clock for the player who must make the next move. When he or she makes the move, he or she taps the mechanism to stop his or her own clock and start the other player's clock. The importance of this analogy is simple—It is only fair for the PTO to be under some pressure to complete action on an application. It should not be only the applicant who feels the pressure. Such a system provides balanced system of incentives and safeguards to ensure that both parties proceed expeditiously to process a patent. It is unfair if the only party which feels the pressure is the applicant.

It is not also fair for the PTO to be the judge of when delays warrant patent term recoupment. There might be some tendency for the PTO to resist admissions that it had been responsible for "unusual administrative delay." Such admissions might be cited by the Congress or critics of the agency. It is better to use an objective standard which does not carry any mark of opprobrium for the agency.

There is a powerful reason to include this objective definition in the legislation, not leave it to regulations. Given the controversy over the patent term, it is essential that we provide statutory assurances that the diligent patent applicant will be compensated for unusual administrative delay, not assurances from the Commissioner or directives in the legislative history regarding regulations which would be issued to implement a vague, subjective, statutory standard.

As cast in the draft legislation, the procedures governing calculation of patent term appear to follow this suggested structure. However, there are a number of provisions that we believe should be improved. In particular, we believe that the legislation should direct the Commissioner to establish a simple determination process for the length of patent term extensions, after which the patent will be granted without the possibility of delay or complication. That process should be performed incident to the issuance of the patent, and should not itself be susceptible to challenge before a patent is granted. The ministerial calculation of a patent term extension should be conducted by the Office, notified to the applicant, and not subject to a formal appeal before the patent is granted. Once a patent is granted, the patent owner should be given the option of appealing a final determination by the Office on the length of a patent term extension through an appeal to an appropriate court. The determination process thus would be similar to the conduct of a petition, with the exception that a final determination by the Commissioner will not be appealable by the patent owner prior to the issuance of the patent. This process will ensure that the process of issuing patents will not be unduly delayed or complicated. Of course, in no instance would it be appropriate to permit a third party to interfere in the determination process for a patent term extension before the patent has been granted.

To achieve these changes, we believe it is necessary to rework the final section concerning procedures for the determination and appeal of patent term extensions. We would be pleased to offer suggestions on this issue.

3. Patent applicants have the right to challenge the PTO's determination of patent scope without patent term erosion

As important as patents are to this industry it is important to remember that not all patents are of equal value. The PTO and an applicant might agree that an invention is patentable, but may not agree about the scope of a patent. A patent drawn to a narrow invention may be of little to no use in protecting the invention in com-

merce. For instance in the biotechnology industry, proteins are often patented that contain over 1000 amino acids, where almost each one of these amino acids can be changed without an effect on the protein—If a patent is drawn so narrowly that it only protects an exact sequence the patent may have zero value in commerce. Although it is important that applicants not be allowed to game the system in order to extend patent term it is also important that legitimate patent disagreements provide for patent term compensation. It is important that recoupment of patent term does not require that each and every decision adverse to the applicant need to be overturned by the court for applicant to earn an extension as the presence of one improper rejection is sufficient to delay the issuance of a patent.

The Chairman's bill decisively addresses this issue by providing compensation for delays due to appeals forced on the applicant by negative determinations by the PTO on patentability, including those on scope or enablement of claims that are ultimately shown to have been made in error.

4. Decision to refile must not erode patent term

Frequently, it is more expeditious to continue prosecution of a patent application before the PTO examiner rather than giving up or filing an appeal. This continued prosecution may result in better focused claims of agreed scope being allowed to issue without adversely affecting the ability of the patent applicant to pursue broader claims that are still in dispute. For this reason it is important to provide mechanisms for rolling over extensions justified by one case into a subsequently filed or continued application where the same invention is being prosecuted.

These amendments are particularly important to protect patent applications which were filed prior to June 8, 1995, the effective date for this provision. Millions of dollars have been invested in the inventions with respect to which these patent applications have been filed. It is not fair to change the rules of the game in mid-stream and potentially reduce the patent term which these applicants expected prior to the enactment of the GATT 20 year term. Applicants were given advance notice of the June 8 date and many of them filed continuing applications, but this is not sufficient to ensure that they will receive a 17 year term from grant. In lieu of providing a guaranteed 17 year minimum term providing for extensions can be rolled over into future filed applications without loss of patent term due to actions of the PTO. review. The Chairman's bill decisively addresses this issue as well by providing that refiled applications do not adversely affect the compensation provisions.

5. Patent term extensions are not subject to change long after the patent issues.

As definiteness and length are key to providing the basis for an investment decision it is important for patent term extensions to provide that definitiveness. It would minimize the entire value of the patent extensions for start-up companies if patent terms can be challenged 15 years after the patent was granted. At that point, all the investment decisions have been made. Closing the door to challenges by third parties is thus essential to ensure that the investment and evaluation process for patents not be prejudiced by late in the term attacks on patent term extension determinations.

We are concerned that determinations on patent term extension not be subject to challenges by third parties, unless that third party has a demonstrable interest in not only the patent at issue, but also the implications of the patent term extension determination by the Commissioner. We would strongly advocate precluding challenges to patent term extension determinations except where a third party has been subjected to an infringement action (or demonstrable threat thereof), and the party challenging the determination be prepared to demonstrate that the Commissioner was grossly negligent in making his determination on the patent term extension.

The Chairman's proposal requires some changes to effect these proposals, and we would be pleased to offer suggestions in this regard.

Publication of Patent Applications

BIO is an industry that is dependent on early dissemination of scientific and technical information. In the majority of our member companies and associations, the rule is publish or perish. This is not a theory, it is the way our companies work. Indeed, given the speculative and risky nature of product development in our field, the absence of timely patent information acts to impose serious and unnecessary risks for investors.

Recognizing these points, we are strong supporters of a simple publication system under which all patent applications would be published 18 months after their effective filing date. We do not see the negative implications that have been raised by some against such a rule. In fact, when coupled with provisional right, we believe a publication system offers small businesses and inventors a valuable asset for marketing their inventions and technology.

We recognize, however, that there are concerns, and that solutions must be developed to address those concerns. We would have preferred a solution that would address applications on a case-by-case basis, rather than carve out a rule that permits an entire class of applicants to avoid publication prior to grant, regardless of the circumstances involved or the duration of the period of examination. Given the late stage of the legislative process, however, we are prepared to work within the general structure arrived at by the Chairman that permits those applicants that do not file abroad in any country, or whose applications will not been published in another country, to defer the publication of their applications for some period beyond 18 months. Having said this, we would strongly recommend the Chairman to include an ultimate deadline after which the application will be published, without condition. We would strongly oppose any option under which the ultimate deadline could be deferred. A suitable deadline would be 36 months from the effective filing date of the application. By that point in the prosecution of an application, the vast majority of applicants will have received a very clear picture of the patentability of their inventions from the PTO.

There are two other issues that we believe need to be addressed in the publication section of the Chairman's draft.

First, we have heard concerns from many small business and independent inventors over the potential risks associated with publication. One of these concerns is that a better situated party with more money and resources would be able to file an application after a first applicant has had their application published, invoke an interference proceeding and potentially win that proceeding due to their deeper pockets. We do not believe that type of situation is likely to arise with any discernable frequency, given the criteria that must be established to provoke and subsequently prevail in an interference proceeding. However, to foreclose that possibility, we would favor a simple rule that would preclude any party from establishing a date of prior invention where that party could not establish an effective filing date or a date of reduction to practice for the invention prior to the date that an application claiming that invention is published by another. This anti-derivation rule would be an effective measure that gives additional comfort to patent applicants who have had their applications published.

Second, we believe that the formulation in the bill of a test for provisional rights that requires comparison of published and patented claims for "substantial identity" will prove difficult in practice and add to the cost and complexity of litigation. We would prefer a simpler rule that would involve a proof of infringement of both the published claim and the patented claim. Concerns about adequate notice to third parties are addressed by the requirement of actual notice of the application as a condition for recovery of provisional remedies. Additional measures could be added to the notice provision to address concerns about adequate advance notice of potential liability. Such a change would be vastly preferable to a new concept of proving two claims to be "substantially identical."

Patent Office Reform

The Chairman's draft proposes to establish the Patent and Trademark Office as an independent Federal agency subject to the policy direction of the Secretary of Commerce. We would support this formulation, or any other one, that gives the PTO sufficient autonomy and freedom to conduct its operations as any modern corporation does. Doing so, and keeping the PTO under the general policy direction of the Administration, would represent the best combination of oversight and autonomy that can be crafted.

We believe the Chairman's draft will ensure that the policy direction provided by the Secretary of Commerce will not operate in fact to complicate the day-to-day operations of the Office. We would oppose a policy oversight role for the Secretary of Commerce that would permit individual patent grant determinations to be subjected to a case-by-case review by some party outside of the PTO. The general policy direction that could come from the Secretary should be just that—general direction, not specific guidance in specific cases. We also believe that the PTO should retain its long history of having expertise in intellectual property policy matters, and for this reason, would support a formulation of the legislation that would ensure that the PTO itself be capable of advancing domestic and international policy matters pertaining to the patents, trademarks and other forms of intellectual property.

Reexamination Reform

The cost of patent litigation today can be staggering. In many instances, small businesses, of which BIO is largely composed, face the daunting task of patent litigation long before that company can expect to become profitable, or for that matter, even have product to commercialize. Measures that will reduce the cost and com-

plexity of patent litigation, thus, must be identified. We believe that modifying the reexamination process may be one such step.

We generally supportive of proposals to modify reexamination proceedings to permit more extensive participation by third parties without raising the possibility of making the proceedings overly complicated or susceptible to abuse. It is important that any reexamination provision *will not* permit third parties to convert reexamination proceedings into full-blown patent invalidity trials before the PTO.

We would support a prohibition on the Commissioner finding a substantial new question of patentability—which is the precursor to the initiation of a reexamination proceeding—in those instances where the same prior art had been considered in a prior reexamination proceeding initiated by a third party requester, even if it is a different third party. This should be the logical effect of a previous reexamination proceeding, but by making it a statutory preclusion, it would remove the possibility of “repeat” reexaminations based on the same prior art.

We also believe it may be advisable to impose an overall time limit on the PTO's conduct of a reexamination proceeding. Under current law reexamination proceedings are to be conducted with special dispatch. The law could clarify the meaning of special dispatch to impose an overall time period for the proceeding before the PTO. Imposing a finite period during which the reexamination is to be conducted will help foreclose the possibility of reexamination proceedings dragging out over an extended period.

Conclusion

The Chairman and this Subcommittee have demonstrated their understanding of the importance of patents for biotechnology inventions. They have led the way in strengthening patent protection for our innovative industry. They can now lead the way in promoting reform of our patent system to advance our collective interests.

With the adoption of the proposed amendments, there is no longer any need to measure patent term using the old 17 year term from grant. Such a minimum term might be the simple solution, but safeguards for diligent patent applicants achieve the same result and are functionally equivalent. The additional benefits of the Chairman's proposed package of reforms would complement the proposals on patent reform that would prevent any diligent patent applicant from losing any period of their patent term.

We strongly support your efforts, Mr. Chairman, and look forward to working with you to pass this long overdue and much needed reform package.

Mr. COBLE. Thank you Mr. Ludlam. You will recall what I said to Mr. Balmer that this is a team effort and I recognized members, but thank you Mr. Ludlam for mentioning staff. I omitted staff and for that I apologize to them; staff on both sides of the aisle do Yeomen like work. Thank you for recognizing that as well. Mr. Tobias.

STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. TOBIAS. Thank you, Mr. Chairman.

I am Bob Tobias, President of the National Treasury Employees Union. I appreciate the opportunity to be before you today and the other members of this committee. NTEU is the largest union representing employees of the U.S. Patent and Trademark Office with more than 2,500 bargaining unit employees organized into two local chapters.

As this subcommittee is very, very well-aware PTO plays a critical role in the development of new industries in our economy. PTO's employees perform the quasi-judicial function of adjudicating patent and trademark applications, an inherently governmental function that appropriately belongs in the public domain and is of Constitutional authority.

PTO's employees are vital to the successful operation of the Office and can and should play an important role in increasing its efficiency and its productivity. NTEU's interested involvement in the debate on the reorganization of PTO stems from our concern

about the impact any reform proposals will have on the employees we represent.

As the debate on intellectual property reform goes forward, NTEU feels strongly that whatever policy Congress creates must be able to be efficiently and effectively implemented. It is vital that any legislation to change PTO's structure embody accountability, oversight, and checks and balances on those managing such an entity. Personnel ceilings, space allocation, and procurement requirements and the inability to institute personnel and compensation flexibilities to better attract the highly skilled work force PTO needs has placed significant burdens on the office.

We welcome legislation that will address these problems. Before I comment on the specific provisions of the Committee Print, of course, I am going to limit myself to title VI of the Print, I feel compelled to make one observation, Mr. Chairman.

The proposal we are considering today is a more modest and limited proposal than the reorganization bills this committee considered previously, such as H.R. 3460 in the 104th Congress.

The previous proposals that exempted PTO from parts of title V, balanced with expanded negotiating rights over issues such as pay, benefits and other critical terms, conditions, and employment were innovative, radical, cutting edge, bold, and sometimes classified, I think, quite accurately as risky ventures into new methods of labor management relations.

Our Union worked cooperatively with you and other members of this committee to support those proposals. They proved too far reaching for some and did not become law. Mr. Chairman, I hope in the future if any of your colleagues try to falsely characterize Federal sector labor unions as rigid, resistant to change, or prone to Luddite tendencies, you would remind them of our Union's willingness to take risks in personnel reforms and remain ready to work with the Congress and the administration to make sure PTO can run in a way that will best serve its customers by providing the Office with employees with the skill and experience that PTO needs.

The proposal before us would make the Patent and Trademark Office an independent agency separate from the Department of Commerce, though still under the policy direction of the Secretary of Commerce. Furthermore, PTO would have a nine-member Public Advisory Committee appointed by the Secretary.

NTEU supports greater autonomy for PTO. We believe such autonomy will allow the agency to better focus on its mission and more effectively serve its customers. We also believe additional efficiencies could be obtained by having an employee representative serve on the Public Advisory Committee along with the customer representatives.

NTEU strongly supports the language in section 612 that provides for the PTO to retain and use all of its revenues and receipts. The PTO is a fee funded operation receiving no appropriated taxpayer funds.

It is not proper for its revenues to be syphoned off for other purposes, but should be dedicated to the efficient operation of the agency. Furthermore, NTEU supports the language that exempts

PTO from any administratively or statutorily imposed limitation on personnel.

Without the trade-off of increased negotiating rights over pay and benefits, NTEU believes that the protection offered by title V, U.S.C. are necessary and needed. NTEU is also pleased that the critical language ensuring the adoption of existing labor agreements has been included in the Committee Print.

Lastly, NTEU would like to engage in a fuller discussion of section 612(B)(1)(f) to see if there are other opportunities here to introduce some of the innovations balanced with worker protection that I previously mentioned.

Mr. Chairman, I cannot say this legislation makes any great new advances in labor relations or personnel management, but with the changes we have suggested we have the potential to make some meaningful improvements in structure and administration.

NTEU is very pleased to support such advances. I, again, thank you for this opportunity to address this subcommittee and will be happy to answer any questions you or the other members may have.

Thank you.

[The prepared statement of Mr. Tobias follows:]

PREPARED STATEMENT OF ROBERT M. TOBIAS, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Chairman Coble, Representative Berman, and distinguished Members of the Subcommittee on Courts and Intellectual Property, I am Robert M. Tobias, National President of the National Treasury Employees Union (NTEU). On behalf of the more than 155,000 federal workers represented by NTEU, I would like to thank the Subcommittee to once again allowing me to present our union's views on matters concerning the Patent and Trademark Office.

NTEU is the largest union representing employees of the U. S. Patent and Trademark Office (PTO), with more than 2,500 bargaining unit employees organized into two local chapters. The employees at NTEU Chapter 243 are involved in all phases of the patent and trademark application process—from handling mail, to other tasks directly related to the adjudication of the patent and trademark applications. The Trademark Society, NTEU Chapter 245, represents the attorneys who process trademark applications.

As the Subcommittee is well aware, the Patent and Trademark Office plays a critical role in the development of new industries in our economy. PTO's employees perform the quasi-judicial function of adjudicating patent and trademark applications—an inherently governmental function that appropriately belongs in the public domain and is of Constitutional authority. The American public and business community place great importance on the registration of patents and trademarks in the United States as a key to the protection of valuable intellectual property rights. PTO's employees are vital to the successful operation of the Office and can and should play an important role in increasing efficiency and productivity.

NTEU's interest and involvement in the debate on the reorganization of the PTO stems from our concern about the impact any reform proposals will have on the employees we represent at the PTO. As the debate on intellectual property reform goes forward, NTEU feels strongly that whatever policy Congress creates must be able to be efficiently and effectively implemented. It is vital that any legislation to change PTO's structure embody accountability, oversight, and checks and balances on those managing such an entity. Personnel ceilings, space allocation and procurement requirements, and the inability to institute personnel and compensation flexibilities to better attract the highly skilled workforce PTO needs have placed significant burdens on the Office. We welcome any legislation that will address these problems.

Before I comment on the specific provisions of the Committee print on PTO reform (and I will limit myself to Title VI of that print), I feel compelled to make one observation, Mr. Chairman. The proposal we are considering today is a more modest and limited proposal than the reorganization bills this subcommittee considered previously, such as HR 3460 in the 104th Congress. The previous proposals that ex-

empted PTO from parts of Title V U.S.C. balanced with expanded negotiating rights over issues such as pay, benefits, and other critical terms and conditions of employment, were innovative, radical, cutting edge, bold and indeed risky ventures into new methods of labor-management relations. Our Union worked cooperatively with you and other members of this committee in support of those proposals. In the end, they proved too far-reaching for some and did not become law. Mr. Chairman, I hope in the future if any of your colleagues try to falsely characterize federal sector labor unions as rigid, resistance to change, or prone to Luddite tendencies, you will remind them of our Union's willingness to take risks in personnel reforms. We remain ready to work with the Congress and the Administration to make sure PTO can be run in a way that will best serve its customers by providing the Office with employees with the skill and experience that PTO needs.

The proposal before us would make the Patent and Trademark Office an independent agency separate from the Department of Commerce though still under the policy direction of the Secretary of Commerce. Furthermore, PTO would have a nine-member Public Advisory Committee appointed by the Secretary. The Advisory Committee would have the duty to review the policies, budget and performance of the PTO and advise the Commissioner in other ways. NTEU supports greater autonomy for PTO. We believe such autonomy will allow the agency to better focus on its mission and more effectively serve its customers. We also believe additional efficiencies could be obtained by having an employee representative serve on the Public Advisory Committee along with the customer representatives. While currently NTEU enjoys a strong and positive partnership with PTO management, an employee representative on the Advisory Committee would allow for improved collaboration and dialogue with the PTO customers.

NTEU strongly supports the language in Section 612 that provides for the PTO to retain and use all of its revenues and receipts. The PTO is a fee-funded operation receiving no appropriated, taxpayer funds. It is not proper for its revenues to be siphoned off for other purposes but should be dedicated to the efficient operation of the agency. For this same reason, NTEU believes there should be a budgetary fence between revenue raised from Patent applications and trademark applications. Their should not be cross-subsidization between these two functions. Furthermore, NTEU supports the language that exempts PTO from any administratively or statutorily imposed limited on personnel.

Without the trade off of increased negotiating rights over pay and benefits, NTEU believes that the protections offered by Title V U.S.C. are necessary and needed. NTEU is also pleased that the critical language ensuring the adoption of existing labor agreements has been included in the Committee print. This will allow a seamless transition in any agency reorganization. Lastly, NTEU would like to engage in a fuller discussion of Section 612 (b) (1) (F) to see if there are opportunities here to introduce some of the innovations balanced with worker protections that I have previously mentioned.

Mr. Chairman, I cannot say this legislation makes any great, new advances in labor relations or personnel management. It is a modest piece of legislation and, with the changes we have suggested, may have the potential to make some meaningful improvements in structure and administration. NTEU is happy to support such advances. I again thank you for this opportunity to address the subcommittee and will be happy to answer any questions you or other members may have.

Mr. COBLE. Thank you Mr. Tobias.

I do not want to put pressure on you, Mr. Stern, but you all have been very diligent in complying with the 5-minute rule. I thank you for that. Mr. Tobias, you mentioned the bargaining powers might be too risky.

You might want to talk to Mr. Stern about that. He might have a word or two to say about that, but we will let him respond to that at this time.

Mr. TOBIAS. This is an area where reasonable minds might reasonably differ.

Mr. COBLE. I believe that one can disagree without being disagreeable. I think most people believe that. There are a few, however, who do not, but Mr. Stern, we will be glad to hear from you.

**STATEMENT OF RONALD J. STERN, PRESIDENT, PATENT
OFFICE PROFESSIONAL ASSOCIATION**

Mr. STERN. Well, I hope we can disagree without being disagreeable. My organization, by the way, now represents over 2,800 professionals at the Patent and Trademark Office. Most of them are patent examiners. There is virtually universal agreement within our membership that providing the PTO with the authority to retain all of its fee income is a significant benefit.

We strongly support the concept of retaining all the PTO's income within the PTO. We also support the concept of eliminating FTE ceilings. Obviously, if we need more employees, the agency ought to be able to hire them without any arbitrary limits.

The most important thing to our membership, and you are right, is the personnel administration system. We definitely applaud your retention of the PTO as a Government agency, and your retention of the employees in our established Civil Service System under title V.

Maintenance of the Civil Service System's culture of honorable treatment is extremely critical to my membership. We also wish to thank you for including a provision on developing an incentive program to keep primary examiners who are eligible for retirement as trainers for the next generation.

We think this will be a significant benefit to the agency. We strongly support the concept of an advisory committee as a mechanism for ensuring that we meet the needs of the patent user community and to provide motivated oversight.

Such a committee needs detailed information about internal operations. If all of the information is provided from a single source, the committee will be subject to manipulation. Conspicuous by its absence is the provision of multiple sources of information about internal operations.

This is an area in which a labor union can provide particular help. We are a source of information about the realities at the PTO from a perspective that is different from management's. We therefore recommend that you incorporate a non-voting seat on the advisory committee for each of the labor unions that represent employees at the PTO.

If this is not provided by statute, it is unlikely that the committee will comfortably receive independent information from employees since receiving such input might imply disrespect to management. We are also concerned about the first to invent defense.

I was very surprised to notice the name. It seems to be a misnomer. There is no requirement that the person asserting the defense be a first inventor in the bill. This defense to infringement makes it safe for a company to retain its invention as a trade secret. We were always taught that a fundamental purpose of the patent system is to induce public disclosure of inventions.

The first to invent defense will undercut that purpose. Last year, we testified to the critical need for improvement in the quality of examination. Patent examination needs to be enhanced by providing more time for examination, by improving the foreign patent and non-patent literature search files, by maintaining the U.S. classification system, and by training examiners.

I have attached last year's testimony to my testimony today because all of the things that were said there are still true. There are a few items that deserve an update. If there is one thing that our patent examiners desperately need is more time to do a quality job.

Even the recent reengineering laboratory conducted by management confirmed this. All reports we have gotten from employees state that they took much more time than would otherwise be allowed by the production system.

Secondly, the availability of foreign patents has gotten worse not better. Just this January employees discovered that the agency was boxing up what we believe were hundreds of thousands of foreign patents for disposal as trash. Luckily, we were able to identify the situation for at least some of the patents in time to alert Acting Commissioner Todd Dickinson. He acted swiftly to preserve the patents, which while boxed, had not yet been trashed. However, it is not clear that he has the resources to put them back in the files.

As of today, those patents are still in storerooms and unavailable to examiners. The PTO is spending hundreds of millions on automation each year. Even though automated tools will be determinative of the quality and speed of our output, the agency is still unwilling to discuss the substance of automation with the association.

They have yet to decide to put the convenience of examiners and the quality of examination ahead of the convenience of the information technology folks. When something similar happened at the FAA, it led to a \$190 million rework project.

In order to cure this we recommend that as part of the annual report requirement, the agency provide a detailed accounting of its automation activities, including the amounts of money expended and a listing of contracts with each task order issued.

Thank you.

[The prepared statement of Mr. Stern follows:]

PREPARED STATEMENT OF RONALD J. STERN, PRESIDENT, PATENT OFFICE
PROFESSIONAL ASSOCIATION

**Patent Office
Professional
Association**

Post Office Box 2745, Arlington, Virginia 22202

STATEMENT OF

RONALD J. STERN, PRESIDENT

PATENT OFFICE PROFESSIONAL ASSOCIATION

BEFORE THE

**SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY
COMMITTEE ON THE JUDICIARY
UNITED STATES HOUSE OF REPRESENTATIVES**

MARCH 25, 1999

ON THE SUBJECT OF

**OVERSIGHT ON PATENT REFORM
AND
U. S. PATENT AND TRADEMARK OFFICE REAUTHORIZATION FOR FY 2000**

Professional Representation for Patent Professionals

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to provide the views of the Patent Office Professional Association. Our organization is the exclusive bargaining agent for the approximately 2800 patent professionals at the U.S. Patent and Trademark Office. The vast majority of the employees we represent are engineers, scientists, and lawyers who work as patent examiners.

There are three bargaining units at the PTO. We represent more employees in our unit than the employees represented by the other two units put together. By the end of this fiscal year, the agency expects to hire 700 new patent examiners. This steep increase will also increase the percentage of organized employees that we represent in the PTO.

There is virtually universal agreement within our membership that providing the PTO with the authority to retain all of its fee income is a significant benefit. We all recognize that charging someone a fee for a promised service and then diverting the fee to other purposes undercuts our ability actually to do what was promised. It also constitutes a tax on innovation which undercuts incentives to invent. We, therefore, strongly support the reauthorization bill for fiscal year 2000 and the provision in the discussion draft of the American Inventors Protection Act of 1999 that all fees collected by the PTO may be used by the PTO.

There is also virtually universal agreement within our membership that the ever-rising number of applications filed requires a commensurate increase in the staff needed to process those applications. We, therefore, strongly support the provision of the discussion draft that frees the Office from administratively or statutorily imposed limitations on positions or personnel.

But most important to our membership is statutory protection of the integrity of the

personnel administration system. We, therefore, applaud your retention of the PTO as a government agency and your retention of the employees in our established civil service system under Title 5, with its finely developed balance between the desire for managerial flexibility and the need for fair, equitable treatment of employees.

Maintenance of the civil service's culture of honorable treatment is extremely critical to my membership. PTO employees have earned and deserve their civil service rights. The PTO has been an example of hard work, productivity and efficiency, in stark contrast to the stereotype of unproductive and inefficient government workers.

We also wish to thank you for including a provision on developing an incentive program to retain primary examiners who are eligible for retirement as trainers for less experienced examiners. We hope this will help transfer knowledge from one generation to the next.

In proposed Section 1(b) of Title 35, the PTO is given authority to establish satellite offices anywhere in the country. As everyone knows, the PTO is in the midst of a billion dollar plus procurement of new office space for the purpose of consolidation. Given the recognized utility of consolidation, it is not clear why satellite offices are being authorized.

We strongly support the concept of an advisory committee as a mechanism for assuring that we meet the needs of a broad spectrum of the patent user community and to provide motivated oversight. To be effective, such a committee needs detailed information about internal PTO operations. If all information is provided from a single source, the committee will be subject to manipulation.

Conspicuous by its absence is the provision of multiple sources of information on PTO

operations for the Advisory Committee. This is an area in which a labor union can provide particular help. We are a source of information about the realities at the PTO from a perspective that is radically different from management's. Therefore we recommend that the legislation be amended to incorporate a non-voting seat on the Advisory Committee for each of the two labor unions at the PTO. If this is not provided by statute, it is unlikely that the Committee will comfortably receive independent information from employees, since receiving such input might imply disrespect to management.

In the discussion draft, the PTO is given the power to contract out the entire operation of the organization, including the searching and examination of patent applications, to foreign governments and international organizations. We believe the critical functions of searching and examination must be retained in this country. We urge the Congress not to give the PTO such unfettered power.

Do not think such an extreme possibility is entirely hypothetical. A recent O.G. notice proposed contracting with the European Patent Office for searches in PCT cases in which the United States was specifically designated by the applicant as the search authority. See 1167 OG 74 of October 18, 1994.

While we support cooperative efforts with foreign patent offices and with international organizations, the basic functions of searching and examination involve policy matters that determine our competitiveness with both the Europeans and the Japanese. We do not think it is wise to even create the potential for such a loss of control of fundamental, Constitutionally mandated economic policy.

We recommend that Congress direct that examination be performed within the territory of the United States by government employees who are citizens.

First to Invent Defense

The "first to invent" defense, formerly called prior user rights, is clearly a misnomer.

There is no requirement in the discussion draft that the person asserting the defense be the first inventor. Nor should there be such a requirement. There is no utility in expanding the protracted procedures of interference proceedings to any other forum.

But no matter what it is called, the provision of such a defense to infringement undercuts the patent system as envisioned by our founding fathers. It will make it safe for a company to retain its invention as a trade secret. I have always been taught that a fundamental purpose of the patent system is to induce public disclosure of inventions. Because the first to invent defense will undercut that purpose, we think it will not serve to promote the progress of the useful arts.

Current PTO Operations

Unfortunately, the discussion draft does not address the most serious problems facing the PTO today. Last year we testified to the critical need for improvement in the quality of examination. Patent examination needs to be enhanced by providing more time for examination, by improving the foreign patent and non-patent literature search files, by maintaining the U.S. Classification system, and by training examiners. I have attached last year's testimony, because we believe it is still valid. It represents the needs we have identified and the solutions that we believe are best for the patent system.

However, a few of the items need some update. If there is one thing that our patent

examiners desperately need, it is more time to do a quality job. Even the recent reengineering laboratory conducted by management confirmed this. All reports we have gotten from employees state they took much more time than their standard production goals would have allowed to do a thorough and complete examination. The patent applicants were delighted with the time and attention devoted to their applications. We look forward to receiving all the data and information from management so that we can work together to increase quality.

Secondly, availability of foreign patents has gotten worse, not better. Just this January, employees discovered that the agency was boxing up what we believe were hundreds of thousands of foreign patents for disposal as trash. Luckily we were able to identify the situation for at least some of the patents in time to alert Acting Commissioner Todd Dickinson. He acted swiftly to preserve the patents which while boxed had not yet been trashed. However, it is not clear that he has the resources to put them back in the files. As of today, they are still in storerooms and unavailable to examiners.

Some would have you believe that the availability of foreign patents has gotten better because foreign patent abstracts can now be text searched on our automated system. Most examiners consider the possibility of searching the generally poorly translated abstracts woefully inadequate when compared to a search of paper copies of foreign patents that have been classified into the U.S. Classification system.

The PTO is spending in the hundreds of millions on automation each year. Even though the automated tools will be determinative of the quality and speed of our output, the agency is unwilling to discuss the substance of automation with the Association. While the automation

Statement of Ronald J. Stern, POFA
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managers listen to the feedback of some employees, they have yet to decide to put the convenience of examiners and quality of examination ahead of convenience of the information technology division. Sometimes it seems as if they are driving us, rather than us (and our needs) driving them. When something similar happened at the FAA, as reported in the March 22, 1999 *Federal Times*, it lead to a \$190 million dollar rework project for fixing problems raised by the air traffic controllers. We recommend that the legislation, as part of the annual report requirement, direct the agency to provide a detailed accounting of its automation activities including the amounts of money expended, and a listing of contracts with each task order issued.

Thank you for listening to our concerns.

**Patent Office
Professional
Association**

Post Office Box 2745, Arlington, Virginia 22202

**STATEMENT OF
RONALD J. STERN, PRESIDENT
PATENT OFFICE PROFESSIONAL ASSOCIATION**

**BEFORE THE
SUBCOMMITTEE ON COURTS AND INTELLECTUAL PROPERTY
COMMITTEE ON THE JUDICIARY
UNITED STATES HOUSE OF REPRESENTATIVES**

MARCH 19, 1998

**ON THE SUBJECT OF
OVERSIGHT REGARDING THE
INCOME AND EXPENDITURES
OF THE
U. S. PATENT AND TRADEMARK OFFICE**

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to provide the views of the Patent Office Professional Association. Our organization is the exclusive bargaining agent for the approximately 2400 patent professionals at the U.S. Patent and Trademark Office. The vast majority of the employees we represent are engineers, scientists, and lawyers who work as patent examiners.

There are three bargaining units at the PTO. We represent more employees in our unit than the employees represented by the other two units put together. By the end of this fiscal year, the agency expects to hire 650 new patent examiners, with another 400 scheduled for the year after. These steep increases will also increase the percentage of organized employees that we represent in the PTO.

In the 1990's, the PTO has been in an extremely privileged position: Our budget has increased by 250% and our workload has only risen by 53%. Yet I am here to sound an alarm.

Examination practice in our country is rapidly approaching a stage of major crisis. It is a crisis of confidence in the quality our work product. For examiners, quality basically means a complete search of the prior art, a thorough and clear exposition of all the legal issues, and making correct decisions on patentability. In the past fifteen years, there has been a relentless drive to increase the productivity of examiners, that is, to decrease the amount of time spent on each case. Production quotas are specified in six minute increments and many employees put in lots of voluntary overtime. Each professional puts as much quality into the product as time granted to him by management allows. As the complexity of the technology has expanded, as

the size of the search file has expanded, as the complexity of the legal issues has expanded, and as patent procedures have become more complex, there is only one thing that has remained constant - the quota that has been assigned to each examiner.

At this point, the average amount of time spent per application is approximately seventeen hours. How much less time can an examiner spend on a case and still put out a quality decision? Currently, the European Patent Office spends about as much time searching a patent application as our examiners spend on the entire prosecution of a case.

Our customers have been surveyed numerous times, and have been extensively interviewed in focus groups. Their number one concern is the quality of our work product, especially as regards the adequacy of the search of the prior art. In a survey conducted by the Haelen Group, an outside consulting firm that was hired by management as part of the re-engineering efforts at the PTO, our customers gave us a mere 50% overall satisfaction rating. We are so bad that both the Postal Service and the Internal Revenue Service have higher overall satisfaction scores. Poor quality has become so legendary that it is even cited in text books. In a well respected book on bar codes, the author laments the granting of patents for " 'inventions' which are overly broad, not truly novel, or perhaps obvious in nature." Roger C. Palmer, *The Bar Code Book*, Helmers Publishing, Inc., third edition, 1995, page 241. Whereas our searches once were the envy of the entire world, we now regularly hear of cases in which a European Patent Office (EPO) examiner has found a relevant reference that was not found by our initial search.

Our employees have also been surveyed by the Haelen Group. In that survey, the number one problem identified by employees was concern over the quality of our work product. Our

examiners are strongly motivated to provide a quality work product by their professionalism and by their pride. Every patent lists the names of the examiners who worked on the case, and no one wants to be embarrassed. But our examiners cannot perform miracles. They need time, better search tools, and training.

Our customers have spoken. Our employees have spoken. But, nothing has changed. Production and cycle times still take precedence over quality. And administrative and automation functions still take priority over examination functions.

The first question that should be asked is: Do we have the resources to do a quality job in a reasonable amount of time? The answer has to be a resounding YES. What other agency has been able to increase its budget by 250% within this decade with only a 53% increase in the number of applications processed during the same time?

The PTO has been fortunate in that its overall budget has increased by such huge amounts. The largest increase in our fee income has been due to the collection of maintenance fees. During this decade, the second and third patent maintenance fee increments became fully operational. In addition, fees for extensions of time became a more significant source of income. At the beginning of the decade in FY '90, the expenditures of the PTO were only about \$327 million per year, while the proposed level for FY '99 is \$836 million, an average increase of about 11% per year.

Over the same decade, the yearly number of patent applications examined has increased by only 53%. The number of patent applications examined went from about 142,600 in FY '90 to a hoped for 218 thousand in FY '99, a compound rate of increase of a little less than 5%. One

might think that the huge increase in available resources would allow for a significant increase in the quality of our service to the patent community. Unfortunately, that has not happened.

We now collect hundreds of millions of dollars more per year than we would have collected at the beginning of the decade for the equivalent workload, yet examiners have no more time per case than before, have less training available than before, and are spending less time maintaining our search files than ever before. Where has the extra money gone?

The real issue is one of priorities. The agency's priorities are clearly delineated in its budget, what it calls its "corporate plan." On the last page of the section on the patent business, it set forth its performance measures (page 28, Table 7). Incredibly, quality is defined only as average cycle time. Nowhere to be found is any measure of the completeness of the search, of the discovery of the most pertinent prior art, or of the correctness of our legal conclusions of patentability. These omissions are shameful.

And they appear to be penny wise and pound foolish. The goal for the next five years is to shave 4 months off the existing cycle time, ostensibly, to give patent holders 4 ~~additional~~ months of patent protection within the 20 year limitation on patent term. We should ask our customers: How much risk to the potential invalidity of the entire term and how much risk of increased litigation costs are you willing to take in order to get an additional 4 months of patent protection? In a system in which applicants pay hundreds of dollars for extensions of time to respond, I predict that our customers will value patent reliability more than short extensions of their term.

Search File Degradation

Patent reliability and examination efficiency have been threatened because critical search tools have been crippled. Since March of 1995, the PTO has ceased to classify new foreign patents according to the U. S. Patent Classification system and has ceased to distribute them to our search files. In addition, reclassification efforts with respect to U. S. patents have been curtailed and in some cases, where a reclassification project has been conducted, the project did not include the reclassification of foreign patents and non-patent literature. At the beginning of the decade there were about 125 full time classifiers, while now the number has dwindled into the 50's. Even these remaining employees are being used to perform other tasks, such as routing new applications to the examining groups, a job that used to be performed by paraprofessionals. In addition, there used to be substantial examiner detail time to reclassification projects; most of that effort has been eliminated. While the loss of reclassification efforts may not have a dramatic impact at any one point in time, the long term corrosive effect is as sure as the impact of a beach climate on cars.

The need for a classification system is independent of whether we automate our search system or maintain our paper files. A text based system is woefully inadequate for many searches when, for example, the search terms are inherently commonly used terms. It is well accepted both here and at the European Patent Office that the use of the classification system is necessary for adequately narrowing searches in an automated environment.

Lack of Training

In 1997 the PTO canceled virtually all training programs for experienced examiners on the basis of a claimed budget emergency. The ban included in-house and university technical courses, in-house law courses, the Law School Tuition Assistance Program, the Juris Master program, attendance at most technical conferences, and visits to industry. Later in that year, even when the PTO knew it would have many tens of millions of dollars, it failed to reinstate these programs. Even today, these programs have not yet been reinstated.

Examiner training has been identified as a critical need by our customers. P. Mathis & Associates, an outside consultant hired by the PTO as part of its reengineering effort, conducted two automation studies which concluded that additional training was a critical PTO need. But, even more importantly, every profession has provided for continuing education for its members to improve and maintain skills. The profession of patent examining should be no different.

Last year, the Subcommittee on Appropriations for the Commerce Department (and others), in its report, HR 105-207, thought training for patent examiners was so important that they requested the agency to report back to the Committee by February 2, 1998 on its training plans for FY 1998. To the best of our knowledge, no such report has been submitted, even though FY 1998 is almost half over.

Automation at the PTO

An Alphabet Soup Spelling "Failure"

The PTO has had a less than illustrious history when it comes to automation projects. In 1950 the PTO attempted a pilot automated search system in Class 167, "Medicines, Poisons and

Cosmetics." This pilot was a failure and was ended in January 1951. In the 1960's the PTO began investigating the automation of the patent search file with "Project Potomac". After spending 10's of millions of dollars, the project was abandoned as a complete failure. Over the years there has been an alphabet soup of failed automated systems. HAYSTAC (Have You Stored Answers To Questions), ILAS (Interrelated Logic Accumulating Scanner), RAMP (Random Access Mechanization of Phosphorus Compounds), CAMP (Card Mechanization of Phosphorus), SECTR (Semiautomatic Encoding of Chemistry for Information Retrieval), CASSIS, and CSIR have all arrived with great fanfare and have stunk away in costly failure.

The American Intellectual Property Law Association's Information Retrieval Committee in their March 20, 1992 report said "The point is, no one outside the USPTO seems to have a handle on how much the system will cost to run. All of this to achieve no expected efficiency gain and dubious quality improvements. This is automation for automation's sake, at the cost of at least several hundred dollars more per patent application, and possible thousands more."

So where has all the money gone? We don't yet have an automated patent retrieval system that can match the speed and efficiency of the paper files. The PTO has recently dropped another alphabet soup of unusable automated systems on the Examiner's desktop, while proposing to remove the only search system that does work...the paper search file. This all without any training on how to use the dozen or so new systems. You see, PTO management subscribes to the "you figure it out" school of training.

This alphabet soup of new systems were developed without PTO management seriously considering what examiners or the public want and need in automated systems. PTO

management has chosen to simply ignore an Executive Order signed by President Clinton requiring agencies to bargain over the technologies, methods and means of performing work. POA is not against automation. POA is against automation that wastes the public's money by failing to produce systems that enable examiners to be more productive. You have to understand that all examiners are either scientists or engineers. Our job steeped us in a love of technology. But, we are practical too and know the difference between a lemon and a peach.

In October 1997, we were notified of the agency's intent to eliminate the paper files before examiners are transferred to the new buildings that the agency wishes to lease. Contrary to intuition, computerized searches do not take less time than searches using the paper files. With the recent elimination of the dual screen cluster workstations, only desktop workstations are available. Those workstations will not even allow one to see an entire page of a patent at a readable resolution. In addition, as currently configured, they do not provide for viewing the images of a collection of patents identified through a text search. While the desktop terminals might work for those who need to find information only occasionally, it is totally inadequate for those searching in a production environment such as ours.

Retaining the paper files is dirt cheap in comparison to automation. We estimate that space costs plus upkeep add up to less than \$4 million per year. If the paper files go, so will our classified foreign reference backfile and our classified non-patent literature, neither of which have been captured electronically.

We find it incredible that PTO management has announced that they will eliminate the paper search files without ever having done a cost/benefit analysis. We have also asked for

documentation on any studies which have been performed with respect to quality of examination and search time using automated patent retrieval systems vs. paper systems. The agency says this information doesn't exist.

Actions the Committee Can Take

The examination system is at a critical crossroad. If there is to be concern for the quality of examination, concern for finding the most pertinent prior art and concern for the correctness of decisions on patentability, then Congress must express that concern.

Controlling the total amount of resources available to the agency will not be sufficient to ensure that there will be a concern for quality. While curtailing resources may very well limit what can be accomplished, expanding our resources will not, by itself, produce quality results. We believe it is essential that you provide guidance and oversight as to how those resources are used.

The most significant issue is not the total level of resources available, but the priorities by which those resources will be allocated. Right now the PTO collects just under \$3000 in fees for each issued patent over the life of the patent. Less than \$800 is allocated to examiners for examining a patent application. The rest is processing costs and overhead.

We believe this imbalance in the priorities of the agency can only be changed by an explicit direction from Congress. Just as Congress put a fence around trademark fees, by requiring that all trademark fees be used only for trademark registrations and related activities in 35 U.S.C. 42(c), so could Congress declare that certain patent application fees be dedicated to fund the pay and training of patent examiners. H.R.812 at Section 6(d) proposes just such a

fence and we strongly support it. Inventors pay application fees principally for the time examiners use to search and evaluate the patentability of an invention. We believe the inventors should be guaranteed the services they paid for, and budget shortfalls accommodated by adjustment of processing and overhead costs.

We believe that the current degradation of our search files can only be overcome by an explicit direction from Congress. Congress could, as provided in Section 4 of H.R. 812, require the PTO to maintain the U. S. Patent Classification system and to actually use it to organize the technical information required to be kept in the search files, including all the foreign patents that form the minimum documentation required to be maintained by the Patent Cooperation Treaty.

We believe that the improved examination quality achievable though the training that customers, employees, and outside experts agree is needed will not happen without an explicit direction from Congress. Congress could, as provided in Section 5 of H.R. 812, meet the training need by requiring that 5% of duty time be set aside for training. This matches the budget allotment for training suggested by the Volker Commission. In a patent reengineering workgroup, it was concluded that a specific set aside for training was the best way to ensure that employees actually would be trained. Best practices in U.S. industry provide for 4-6% of an employees' time be spent in training, while 10-12% is the best practice in Europe.

To provide an economical source of competent and dedicated trainers, H.R. 812, at Section 5(b), directs that the PTO develop an incentive program to retain retirement eligible primary examiners. Civil service law currently allows retention bonuses of up to 25% of salary. The section permits, but does not require, monetary incentives.

In summary, we urge you to provide the agency with explicit guidance on the resources to be devoted to finding the most pertinent prior art relative to each patent application and to ensuring the correctness of our decisions on patentability. We think this can be best accomplished by dedicating certain fees for the pay and training of patent examiners, by directing the PTO to maintain the U.S. classification system and classify foreign patents into the U.S. system, and by directing the PTO to provide a specific amount of time for training.

Mr. COBLE. Thank you Mr. Stern. Thank you all in fact.

Mr. Kirk, much has been said about the first to invent defense. Why is this defense of such importance to inventors, especially those who operate small businesses? How much of the industrialized world relies upon this defense for its inventors? Has its application in those countries been beneficial or harmful?

Mr. KIRK. Well, to begin with, in terms of the impact of the absence of a first to invent defense or prior user defense on the small inventor, of all of the people that one could consider, the small inventor is going to have the least resources to be able to obtain a patent on every invention that he or she might make in the course of his or her operations.

This applies not only in the United States, but it is 10-fold more expensive when one thinks about patenting around the world to protect overseas markets. So you have to, by necessity, be selective and patent only those inventions that you have a high degree of confidence you are going to be using—that you are going to rely upon.

Even there you have to be very selective because they simply do not have the money to do it. The impact which a patent obtained by some second comer could have on the operations of a small entrepreneur-innovator could be disastrous. Therefore, we think that of all of the difference sizes of operations, the smaller operations would be those most likely to benefit from a prior use defense.

With respect to its operation overseas, all of our major trading partners have these systems in place. I would say that most of those systems, however, are not nearly as tightly crafted as the provisions in the Committee Print. In France, for example, the mere statement that you possess the invention may give rise to a prior use defense which is far and away beyond anything that is in the Committee Print. In the Committee Print, because one must have reduced an invention to practice or have commercially used it more than 1 year before the effective filing date of the application, it is almost inconceivable that the prior user would not have been the first to invent. Hence, responding to the earlier testimony, I believe that is where the title comes from. In so far as the use of this defense overseas, we have seen published studies that indi-

cate that this defense has not created a problem. It is not that frequently used in other countries.

To those that would say well, if it is not frequently used, then why do we need to have it. My response would be that if you get run over by a car once every 10 years, you would not say no big deal. You do not want to be run over by a car—period. So, I think you do need it, even though it is rarely used.

Mr. COBLE. Thank you, sir. Mr. Ludlam, elaborate a little bit if you will on why patent term protection is so critical to the survival of your industry (a); and what makes the biotechnology firms different from other companies in terms of financing your operations?

Mr. LUDLAM. Our industry lost \$4.1 billion last year. It is the largest money losing business in the history of the free enterprise system. They do not want to lose money, but they do lose money. They have never had a profitable year. It is hard to know when they will have a profitable year.

In order to fund this research without profits and without revenues, they have to go to investors, and sometimes pharmaceutical firms, often to capital markets, and to venture capitalists. They all want a rate of return. They want to know that if they go through the 5 or 10 years of research, and they spend hundreds of millions of dollars, and they manage to get a patent, and they manage to get through the FDA, and they manage to sell the managed care, at that point, at least they will have 17 years to recoup their investment.

If you get a shorter term, especially on a breakthrough product, a 10-year patent or a 5-year patent, the return just will not be there. It is hard enough to raise capital it as it is. So, the provisions in this bill are absolutely perfect. They provide absolute day-for-day guarantees that if you lose time at the PTO because of the delays that are beyond your control, it is all restored. That is exactly what you have to do.

Mr. COBLE. Thank you, sir. Mr. Kirk, you alluded to this. I am not sure whether Mr. Balmer and Mr. Muller did or not, but let me put this to all three of you.

Why is it important that the Reauthorization bill inhibit the creation of the new surcharges? I touched on it. I think you did, Mr. Kirk, as well. How does this affect your members who, in effect, subsidize the operation of the PTO?

Mr. KIRK. One of the comments that I made on the surcharge has to do, Mr. Chairman, with the surplus that will be generated in fiscal year 2000. It is anticipated that the Office is going to collect \$160 million more than it will be permitted to use.

That money will be carried-over into the following fiscal year, 2001. If you look back at the amount of carry-over coming into the current fiscal year, that was \$116 million coming out of fiscal year 1998 into fiscal year 1999. The delta, the difference between these two, is \$44 million.

Now, what that represents is \$44 million that will be collected by the USPTO, but not spent in fiscal year 2000. This money is not going to be earmarked for something else, but what it means is that the Budget Committee, the Appropriations Committee, and the administration, can in effect take advantage of \$44 million that will be collected and not being spent in the year 2000.

Mr. COBLE. And diverting it.

Mr. KIRK. They do not use the term "diverting" anymore because they have grown a little bit more savvy about the discomfort that it creates this committee, the users and everybody else. They now say we are going to appropriate this money to the PTO in the following year. We are not diverting. That is a nice story.

But when there is \$44 million in fee revenue that will not be spent in fiscal year 2000, that means that there is \$44 million can be spent somewhere else. Then we must look at fiscal year 2001 and see what happens there. \$160 million has been pre-appropriated for fiscal year 2001, but the projected surplus in fiscal year 2001 is not \$160 million anymore, going out is \$77 million.

Now, there is a big difference here: \$44 million that the Appropriations Committee was able to spend in fiscal year 2000 will have to be found somewhere; \$44 million that the administration has got to find somewhere.

The point of my comments is that when we reach fiscal year 2001, deadline, you are going to see either (a) the USPTO budget being reduced below what it needs to properly operate, or (b) a proposal to raise fees to collect money to cover the revenue that has been used somewhere else. So, do we have a problem with the USPTO fees paying for the retirement benefits of the employees? Absolutely not. What we have a problem with is the fact that we do not yet have a system in place that guarantees that the money the PTO collects will remain with it and be spent only for the PTO. If we had that, then we would not need your bill. But we do not have that and we do need your bill.

Mr. COBLE. And I share that concern.

Let me recognize the gentle lady from California now and I will come to you all about it later on.

Ms. LOFGREN. Well, thank you Mr. Chairman.

Since I have a meeting I am going to have to run off to, I appreciate the chance to say just a few things. First, that it has been enormously helpful to hear from all of you. I appreciate your being here.

For Mr. Ludlam, now is it my understanding that your organization actually would prefer publication without exception, but you are willing to support this bill because we need to move forward? Would that be an accurate description?

Mr. LUDLAM. Correct. We view it as a matter of life and death basically. Our companies have scarce resources to spend on research. They need to know what the other guy is working on.

If the other guy is in position to get the patent and you are not, then you ought to move on and reallocate your budget and put it to use in some other way. You save the resources. You save the waste. That will lead to more products and more saved lives.

Ms. LOFGREN. So, I just want to be clear. I do not want to put words in your mouth, but I think it is important to get on the table that you really preferred, for good and sound business reasons, the provisions of the bill in the prior Congress, but you are willing to go that extra mile to get along to get something done to come off that to this position because we need something done?

Mr. LUDLAM. Yes. We will come back and try and get the whole loaf on publication some other time.

Ms. LOFGREN. Right.

Mr. LUDLAM. You will be in business here on the Hill in the future.

Ms. LOFGREN. All right. Mr. Kirk, I have a confession to make. Many of us were busy doing something else last year. As a consequence, I did not read the State Street Bank and Trust Company case. I will read it. I am wondering, not having read the case, and you mentioned it in your testimony and kind of the new elements it introduces into the prior use, can you explain to me why in that case, maybe reading it will make it obvious, they did not simply seek copyright protection rather than patent protection?

Mr. KIRK. As you are well-aware from your experience on the subcommittee, the copyright protects expression, not idea. On the other hand the patent system protects the idea. So, you have got this limited exclusive right for a period of 17 years to that idea.

Ms. LOFGREN. In computer programs you have got a weird area, difficult to categorize, where you have an operational thing, but you also have something that has been deemed to be expressive.

Mr. KIRK. Yes, you do. I can take the idea from your computer program and I can take the code and I can isolate that code from my programmers, lock them in a room and say I want you to write the code for this idea. Now, that is going to cost a lot of money. I would really rather license it from you.

If I am forced to, I can put them in a room and get that code rewritten to implement the idea. That is absolutely proper under the copyright law, but that would not be appropriate under the patent law.

Ms. LOFGREN. So, it is the scope of your protection.

A final question. You were here and heard the discussion with Mr. Campbell on prior use? Then you heard Mr. Rohrabacher saying that there might be an exception for industrial processes.

You seemed to indicate that you thought that was going to be insufficient. Is there some area in between industrial processes—and we really need to stick to the entire prior use—that you could identify as a potential area, you know, middle ground between opponents and us?

Mr. KIRK. Let me just say on that, let us start out with the understanding that a prior user right is simply not available for the vast majority of all inventions because the vast majority of all inventions, as soon as it hits the market can be reverse engineered.

Therefore, prior user rights is not an issue. Prior user rights essentially is limited to industrial processes that you can use in a plant and certain equipment that you can use in a plant that when the product that is produced goes outside will not disclose to the public what your process or your equipment is.

So, it is a fairly limited concept to start with. I think the point that I would make is that as the State Street Bank has shown us, as developments in the law occur, we are going to have areas that people have simply not sought to obtain patents on.

They had been using it as a trade secret thinking that is the only thing I can do. All of a sudden, the law changes, the decision changes what is patentable. You have this huge area of trade secret practice that is put at risk. The patentee, as Mr. Balmer says,

cannot then get a patent because our current law precludes it because they have been using it commercially for more than a year.

Ms. LOFGREN. Mr. Chairman, my time is expired. I think this is an interesting area that we are going to need to spend a little more time on.

Mr. COBLE. If you want additional time, go ahead.

Ms. LOFGREN. I think after this hearing we are going to need to sit down and sort through this.

Mr. COBLE. I concur.

Ms. LOFGREN. I look forward to doing that in a collaborative way.

Mr. COBLE. I thank the gentle lady.

Mr. Balmer, let me revisit my question to Mr. Kirk to you and Mr. Muller, if you all want to add to what he said regarding the surcharge problem. As you all can tell, I feel pretty strongly about this as well.

Mr. BALMER. With respect to the surcharge problem, we are extremely nervous. Certainly, our concern from the intellectual property owner's standpoint is that we get the quality service out of the patent office. That the Patent Office operate as a business in terms of, you know, the way Union Carbide would operate or your law firm would have operated in a very responsible, in a very planned manner.

To have the surcharge come in and not have that go to the funding of the services would be a travesty. It is going to take away from the ability of the Patent Office to provide its services. As we said last year, if you start to do, gee, we got some funding this year so we will now extend, oh wait a second. A surcharge came in. We have to cutback on staff, it takes time to train examiners. It takes time for examiners to develop the expertise and generate quality examinations.

That is why again, we focused a little bit on this concept of a reserve that is set aside for the Patent Office so that when it hit the lean years, they have that funding assured that they can maintain a fighting staff, a good staff. So, we look at this as absolutely critical. We cannot have diversion occurring. That is above and beyond just a tax on innovation.

Mr. MULLER. Thank you, Mr. Chairman. I would endorse Mr. Kirk's comments as they relate to patents. They also relate to trademarks. I do not think this should be a complicated issue. We should determine how many user fees are required to examine our applications.

We should take that money in. Any appropriation over that is a tax upon the intellectual property endeavors of American citizens. That is a tax without representation. We would be strongly opposed to the diverting of any monies.

Mr. COBLE. Thank you. Mr. Ludlam.

Mr. LUDLAM. I would just like to make a comment. Actually, I am a former OMB employee, but let me talk on behalf of the biotechnology industry. We pay user fees to the FDA. About 35 percent of the cost of the review of drugs and biologics at the FDA is paid by us. It is a great investment. We will pay user fees to get better Government. We will gladly pay into the PTO, but they are a 125 percent funded agency.

They are stealing the rest of it. It is theft. It is a tax on our industry. All of our applications are complicated. They cost a lot of money, a lot of computer programming, some very high tech employees, and we want that money to go to the PTO and nowhere else.

Mr. COBLE. Thank you Mr. Ludlam. Mr. Stern and Mr. Tobias, and I say Mr. Stern first because I do not think Mr. Stern that you are warmly embracing the first to admit defense as perhaps other are. So, I want to give you equal time.

Does it apply just to trade secret subject matter; that is processes and the like? Should not inventors who could ill-afford to patent every process in their plant have some protection from the more fluent businesses, many of which are foreign, that might try to appropriate the invention by patenting it?

Mr. STERN. The first to invent defense does deal only with trade secrets. I do not think it would apply to anything other than a trade secret. If there is a disclosure of a process, it would prevent someone that is more than a year prior to the patent application being filed, it would prevent somebody from getting a patent. That would be what we call a statutory bar to the issuance of a patent. Consequently, the so-called first to invent defense can only apply to something that was kept secret.

Mr. COBLE. Mr. Tobias, do you have a strong feeling one way or the other on this? I would be glad to hear from you if you do.

Mr. TOBIAS. Mr. Chairman, NTEU takes the position that we will administer the law that you create. On the issue of public policy, that is for the Congress to decide. We do take positions on how the law might be implemented by our members, but not on the policy itself.

Mr. COBLE. Very well. Of course, the State Street Bank case which allows patenting of business methods, I think that is what—referred it to, Mr. Kirk, do you want to insert your ore one more time in these waters?

Mr. KIRK. I think I have said all I care to on that. Thank you.

Mr. COBLE. Mr. Stern. Yes. Mr. Coble, the irony of the first to invent defense is that the way that it is written up right now, it does not require the person who is asserting that defense to be the first inventor. There is no such requirement at all.

Normally, the decision as to who is the first to invent is made on the basis of conception and due diligence until the present time. Those concepts are not there at all.

Mr. COBLE. But he would have to invent before the patent owner, would he not?

Mr. STERN. No. That is not a requirement; not the way that it is currently written up. That is an anomaly. It is an interesting name. It really refers to the prior user rights. That is probably a more accurate description.

Mr. COBLE. This may well be subject to interpretation. Mr. Kirk, did you have anything?

Mr. KIRK. I would just say if it troubles Mr. Stern a lot we could probably rename it to say the very likely first to invent defense.

Mr. COBLE. Well, on that note, Mr. Balmer, do you want to be heard?

Mr. BALMER. I just wanted to mention there is another side to the first to invent defense. There is a case from the Federal Circuit, the Thompson case, where there is a group who invented particular technology. It was secret for awhile.

Another party invented the same technology and ultimately got the patent. The first group wound up their technology went into commercial production. The patent owner went against the initial inventor. We had the very anomalous situation where that first secret work invalidated the patent.

I think one of the laudable features of the bill is the potential for that later patent to continue to exist provide greater certainty. I think that is something that nobody has really talked about at the table today. I think it is a very important part of that bill.

Mr. COBLE. Yes, Mr. Ludlam.

Mr. LUDLAM. I think one thing that we would simply say is that there is a narrow first invention defense provision on the table in your draft. I know that discussions are going forward about it. The only thing we would say is if it turns out that it is not possible to reach an agreement, that we do not kill the bill because we cannot. That applies both to the House and to the other Body as well.

Mr. COBLE. I concur. We do not want to repeat what happened last time. This literally sailed through the House, pardon my immodesty, but I am proud of the way it did that. Over on Mt. Olympus, it did not do too well.

Folks, this has been a good hearing. Each of you contributed very obviously to that success, as did the other witnesses. I thank you all for your testimony. The subcommittee appreciates it as well. This concludes the Oversight Hearing on Patent Reform and Patent and Trademark Office Reauthorization For Fiscal Year 2000.

The record will remain open for 1 week. So, if you all have additional information, 1 week it will be open. Thank you for your cooperation. The subcommittee stands adjourned.

[Whereupon, at 4:03 p.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF I. FRED KOENIGSBERG, CHAIR, SECTION OF INTELLECTUAL PROPERTY LAW, AMERICAN BAR ASSOCIATION

Mr. Chairman, Members of the Subcommittee. On behalf of the Section of Intellectual Property Law of the American Bar Association, thank you for the opportunity to express our views on your bill, the "American Inventors Protection Act of 1999", and on H.R. 1225, the "United States Patent and Trademark Office Reauthorization Act, Fiscal Year 2000." These views represent the views of the Section of Intellectual Property Law. They have not been considered or approved by the House of Delegates or Board of Governors of the American Bar Association, and accordingly, should not be construed as representing the policy of the Association.

THE AMERICAN INVENTORS PROTECTION ACT

The American Inventors Protection Act, like its predecessors in the 105th (H.R. 400) and 104th (H.R. 3460) Congresses, represents a far-reaching package of proposals to revise and reform the patent laws of the United States. The Committee print of the bill includes a number of reforms which the Section of Intellectual Property Law believes to be not only positive changes in our patent laws, but changes which are essential for the United States to maintain its competitive position in what is rapidly becoming a single world-wide market for the development and exploitation of inventive talent.

Title I—Inventors' Rights

Title I of the American Inventors Protection Act of 1999 is designed to rein in the deceptive and often fraudulent practices of so-called invention promotion companies, which prey upon inventors, and upon the larger universe of those who aspire to being inventors.

Over the many years these practices have persisted, a number of consistent features have been present. First, they are focused on the exploitation of those who believe they are, or could be, inventors of patentable subject matter. They do not target their services toward the research and development departments of major corporate enterprises, but rather upon independent inventors, most often first time or one-time inventors.

Many inventors targeted by invention promotion companies bring to their creative efforts a degree of dedication and passion which is not matched by an ability to realistically evaluate their own efforts. At the same time, they also may lack even a rudimentary understanding of our patent system and be unsophisticated in what is necessary and possible to turn their efforts into commercial success.

In short, they are victims waiting for an unscrupulous invention promotion company to happen.

When a potential customer contacts such a company—usually after seeing a television or print media advertisement—the contact sets in motion a chain of events which has common features over time and independent of the merits of the potential invention.

First, the potential customer who contacts the toll free number of the invention promotion company is asked to provide a description of his or her invention.

In the hands of the unscrupulous invention promotion company, the invention instantaneously develops tremendous potential for patenting, successful development, and marketing. Actual merit does not appear to play a factor in this evaluation. In one case, a journalist, interested in testing the outer limits of an invention promotion company's unbridled optimism, submitted a proposal for a unique automobile "cruise control" device. It consisted of a device for bolting the accelerator pedal, de-

pressed to achieve the desired speed, to the floor of the car. A report came back that department stores all over the country were waiting to put this stroke of genius on the market, perhaps anticipating that motorists were dying to put it in use.

Along with the favorable initial report, the customer receives the initial bite: a solicitation for fees to finance some sort of feasibility study, which may or may not include a patent search. The fee is typically several hundred dollars, often as much as \$1000.

Not surprisingly, the report that results is invariably also favorable, albeit couched in generalities and lacking any meaningful specificity regarding the proposal at issue. The existence of voluminous prior art, and the absence of elements such as novelty, usefulness, and nonobviousness are, of course, not causes to render an unfavorable report.

Sometimes the bogus invention promotion company actually assists the customer in applying for and receiving a patent. However, the patents are often narrow or not well written, or both, or are design patents, which provide little if any real patent protection to the customer whose need is for a utility patent. Furthermore, even these relatively useless claims are often vulnerable to legal challenge. For example, when someone working for the company adds the ornamentation necessary to support a claim for a design patent, the applicant (the customer) is not the inventor, and is not entitled to a patent.

For customers who fail to see the writing on the wall and cut their losses, invention promotion service fees grow larger as the pitch moves to invention promotion and marketing. Here again, the actual services provided are minimal, such as providing a list of names and addresses of corporations for the customer to write to in order to solicit financial backing.

Over a decade ago, our Section of the ABA identified a need for and recommended federal regulatory actions to curb these practices. A number of those recommended actions parallel provisions of title I, and include: (1) a requirement that all contracts for invention promotion services be in writing; (2) a "cooling off" period between receipt of the contract by the customer and any required payment under the contract; (3) mandatory contract provisions spelling out services to be provided, a time schedule for the performance of such services, and a listing of the names and addresses of persons and firms who will be providing services under the contract; and (4) a requirement that the invention promotion service provider deliver a written quarterly report to the customer, spelling out services already performed and services to be performed, a full accounting of money paid by the customer under the invention promotion contract, and the name and address of every person or entity to whom the subject matter of the contract has been disclosed, the reason for such disclosure, and copies of all responses received as a result of such disclosures.

We also recommend the enactment of legislation creating a civil cause of action against an investment promotion company that fails to disclose or misrepresents its success rate or its favorable evaluation rate. Success rate refers to the percentage of customers whose benefits from the company's services exceed money paid out to the company. Evaluation rate refers to the percentage of potential customers whose inventions received a favorable evaluation.

Title I specifically requires such disclosures, and creates a new cause of action which includes remedies for persons injured by a failure to make such disclosures.

Thus, title I contains a number of specific features endorsed by the Intellectual Property Law Section of the American Bar Association. We believe that the system of accountability through mandatory contract, disclosure, and reporting requirements contained in the bill is the right approach. We also believe that these requirements must be backed up with authority for private enforcement through civil remedies for customers injured by violations of the bill's requirements.

In this regard, we believe that the provision for recovery of damages—actual or statutory—when the injury results from failure to disclose the company's favorable report rate or its customers' success rate, is a key feature of the bill.

At the same time, we believe that you were wise to authorize a cause of action for other violations of the regulatory scheme. Experience in states which have similar disclosure requirements, or where the Federal Trade Commission has required such reporting, indicates that fraudulent invention promotion companies are able to neutralize negative success rates by false and fraudulent representation of the "special" merit of the invention in question, or of the extraordinary services to be rendered.

Title I authorizes recovery for injury due to other violations of the statute and regulatory scheme, such as failure to give the customer progress reports on exactly what services have been provided and will be provided. We believe this is appropriate, as is the provision for recovery for injury caused by "any material false or fraudulent statement, representation, or omission of material fact, by an invention

promoter. . . " (regardless of whether that false or fraudulent conduct violates a specific provision of the regulatory scheme).

Proposed new section 56 (b) of title 35 authorizes the court to award reasonable attorneys' fees and to treble damage awards. The Section of Intellectual Property Law endorses trebling of such awards and the award of reasonable attorneys' fees.

We believe that civil enforcement mechanisms, such as those called for in title I, provide the best prospect for discouraging and sanctioning the practices which inspired the development of title I. Criminal enforcement, while possible and desirable in cases where criminal fraud can be proven, is unlikely to provide a sufficient number of prosecutions to provide any meaningful deterrent.

We also support proposed new section 59 of title 35, as added by section 102 of the bill. This section provides that existing State laws relating to invention promotion companies will not be preempted, unless provision therefor is specifically made.

Not all states have adopted such laws, and problems of interstate enforcement support the need for federal legislation. However, state laws in many states provide valuable compliance and enforcement mechanisms, and you are wise to specifically provide that these laws are not preempted.

The Section of Intellectual Property Law of the American Bar Association supports the enactment of title I of the American Inventors Protection Act of 1999.

Title II—First to Invent Defense

Title II of the American Inventors Protection Act of 1999—the First to Invent Defense—is designed to create a defense against infringement charges for parties who have independently developed and used technology in the United States before a patent application was filed on that technology by another party.

Legislation providing for rights to continue use of an invention based on prior domestic commercial activities has attracted support of other organizations. Partially in response to such support, the Section of Intellectual Property Law has continued to review the desirability of providing for prior use rights in a number of contexts, including the "first to invent defense" in this title.

However, the Section of Intellectual Property Law does not favor the provision of such prior user rights based on prior commercial use by persons who elect not to disclose their inventions in exchange for limited term patent protection, but rather seek to protect their inventions by non-disclosure and reliance upon protection under State trade secrets laws. In accordance with this policy, we do not support the enactment of Title II of the Committee Print.

Title III—Patent Term Guarantee

The Uruguay Round Agreements Act (URAA), enacted in December 1994 took a first major step in the direction of reforms which are retained and expanded in the American Inventors Protection Act of 1999. Section 532 of the URAA provides that patent terms are to be measured from date of application, rather than date of issuance of the patents. In constructing the patent reform package represented by the Committee Print, we applaud you, Mr. Chairman, for your efforts to retain this critical provision of the URAA. Retention of patent term measured from filing, combined with the broader patent term extension provisions called for in title III of the American Inventors Protection Act is the proper approach.

Until the enactment of section 532 of the URAA, which became effective on June 8, 1995, the term of utility patents granted by the United States was 17 years, measured from the date of *issuance* by the U.S. Patent and Trademark Office. Section 532 changed this to provide a patent term of 20 years, which would still begin on date of issuance but would be measured from date of *application* for the patent by the inventor. As is readily apparent, the net effect of this change is to provide a longer term of patent protection for patents which are issued less than three years from application, and a shorter term for those which are pending for more than three years from application to issuance. The average pendency period is considerably less than three years, so most inventors will enjoy longer patent protection under the change.

Title III contains patent term extension provisions that are designed to address any inequities that might occur due to delayed issuance of patents under a term measured from filing. It is true that when patent term is measured from filing date, delay in the issuance of a patent is very costly to the applicant. Every day of delay reduces the term of patent protection, something that does not happen when patent term is measured from issuance. The vast majority of inventors will still come out ahead, since their patents will be issued well before the expiration of three years from application.

However, there is no doubt that there will be situations in which, through no fault of the applicant, processing is unreasonably delayed and drags out beyond the three year point where the application becomes a net loser under the change made in the URAA. An obvious example of this would be if the PTO negligently lost an application and failed to process it.

Title III is designed to address such delay through reasonable patent term extension provisions. The URAA already provides for some such extensions, such as when a government secrecy order delays the issuance of a patent, or when an applicant loses valuable patent protection while successfully appealing a Patent and Trademark Office decision against patentability. Title III would provide for longer terms of such extensions, as well as authorize patent term extension in circumstances in which the PTO has failed to meet specific statutorily set time limits for completing various actions in processing patent applications.

We believe that case by case patent term extension for delays in the patent review process is the proper response for circumstances in which unfair results occur under a patent term measured from filing. Title III provides relief without throwing out all the benefits of a term measured from filing. We support the enactment of title III.

Title IV—United States Publication of Patent Applications Published Abroad

Early Publication

In the United States, patent applications are held in confidence by the Patent and Trademark Office, and their contents are not made public unless and until a patent is issued pursuant to a particular application. This contrasts to the practice in almost all the rest of the world, where patent applications are typically made public 18 months after the original filing date.

The Intellectual Property Law Section of the ABA favors changing U.S. law to provide for such early publication of patent applications, while providing a procedure to maintain trade secrecy if the applicant desires after receiving a first office action.

Early publication of patent applications is another way of saying that the contents of U.S. patent applications are to be disclosed to the public before the inventor receives a patent on his or her invention. Opponents of such disclosure argue that such forced disclosure is an open invitation for competitors of U.S. patent applicants to steal their inventions.

This argument has some surface appeal. After all, early publication means that patent applications, including details of how to make the invention in question, are thrown open to anyone who wants to see them. Furthermore, early publication, by definition, means that this event occurs before the inventor receives a patent or can be sure that one is forthcoming.

Foreign inventors file almost half the patent applications filed in the United States. A substantial number of domestic applicants are U.S. multi-national corporations that routinely file abroad. Add the many applications filed by small businesses and others who also file abroad, and it is clear that a substantial majority of U.S. patent applications are filed abroad as well as in the United States.

Early publication would provide inventors and investors with information to help them make decisions at critical stages of invention development. For example, an inventor whose own publication date is imminent can take comfort in the knowledge that no other applications have been opened which establish priority rights in another pending application. If such priority does appear to be established, the inventor may then be able to abandon his or her own application and take advantage of other strategies which may still be available, such as trade secret protection. One of the concerns which has delayed progress on this legislation is the concern that many patent applications will be published before the applicant is able to determine if the application is likely to lead to a patent. When these concerns were expressed regarding the provisions of H.R. 400, Chairman Coble and other proponents of the legislation expressed a willingness to amend the bill to address these concerns. The bill was amended to allow applicants to delay publication until after a first office action in the PTO, and, later, until after a second office action. Despite these generous exceptions, an amendment was adopted during House consideration of H.R. 400 which provided that as a general rule patent applications by independent inventors, small businesses, and universities will not be published unless the applicant so requests. These applications could be published if the applicant also files abroad and is published abroad, or if the applicant engages in conduct designed to delay timely processing of the application. When the Senate counterpart bill, S. 507, was reported in the Senate, it contained similar limitations regarding publication of applications not filed abroad.

Like S. 507 as reported in the Senate, title IV of the American Inventors Protection Act permits all applicants not filing abroad, rather than only "small entity" applicants, to prevent involuntary publication. It also contains a provision similar to S. 507 as reported, providing for the issuance of patents on claim in published applications as they are approved, while the remaining claims continue to be prosecuted.

With the inclusion of provisional rights as provide for in section 404 of the bill, the Section of Intellectual Property Law continues to support legislation to provide for early publication of patent applications, as called for in title IV. We would prefer, however, that applications filed only in the United States not be excepted from publication.

Provisional Royalties

Under present U.S. law, the right to sue for infringement of a patent or to demand royalty payments for use of the patented invention does not attach until a patent is issued. The Intellectual Property Law Section of the ABA believes that publication of patent applications in advance of the issuance of patents must be accompanied by a grant of rights to the applicant to obtain compensation from anyone who makes, uses, sells, offers for sale, or imports the invention between the time the application is published and the patent is issued. For the Intellectual Property Law Section, establishing such provisional rights is both a necessary condition for supporting early publication and an additional reason for doing so, the latter because it provides protection for inventors where none exists today.

Title V—Patent Litigation Reduction Act

Issues regarding patent reexamination and reissue, and the role that third party participants should play in such proceedings, have frequently had the attention of the patent community, the PTO, and the Congress for more than 20 years.

In 1977, the PTO instituted rules, known as the "Dann amendments", permitting "no defects" reissue patent applications to be filed by patent owners. Under these rules, third parties could intervene as protestors in the proceedings to consider the reissue application.

Many practitioners felt that, under the Dann amendments, third party intervenors abused the reissue process. In this regard, our Section, then known as the Section of Patent, Trademark and Copyright Law, adopted a policy calling for the abolition of the Dann amendments. The Dann amendments were abolished, and the present statutory reexamination provisions (35 U.S.C. 301-307) went into effect July 1, 1981.

Objectives of Present Reexamination Statutes

In approving these reexamination provisions, the House Committee on the Judiciary articulated the following purpose of the legislation:

"This new procedure will permit any party to petition the patent office to review the efficacy of a patent, subsequent to its issuance, on the basis of new information about preexisting technology which may have escaped review at the time of the initial examination of the patent application. Reexamination will permit efficient resolution of questions about the validity of issued patents without recourse to expensive and lengthy infringement litigation. This, in turn, will promote industrial innovation by assuring the kind of certainty about patent validity which is a necessary ingredient of sound investment decisions." House Report No. 96-1307(1), to accompany H.R. 6933, (hereafter referred to as the "House Report") at pages 3-4.)

Your Committee report elaborated further on the objective of reexamination as a means to reduce litigation and the resultant delay and expense:

"The cost incurred in defensive patent litigation sometimes reaches \$250,000 for each party, an impossible burden for many smaller firms. The result is a chilling effect on those businesses and independent inventors who have repeatedly demonstrated their ability to successfully innovate and develop new products. A new patent reexamination procedure is needed to permit the owner of a patent to have the validity of his patent tested in the Patent office where the most expert opinions exist and at a much-reduced cost. Patent office reexamination will greatly reduce, if not end, the threat of legal costs being used to 'black-mail' such holders into allowing patent infringements or being forced to license their patents for nominal fees." (House Report, page 4).

The costs today are considerably higher than the \$250,000 mentioned in the Report.

Shortcomings of Present Law

Experience since the enactment of sections 301-307 seems to indicate that the Committee's laudable objective that reexamination serve as a speedier, less costly substitute for litigation has not been achieved, at least not to the extent hoped for.

The Committee Report indicates that, at the time the 1981 legislation was enacted, the PTO expected approximately 2000 reexamination cases per year.

In fact, in the 13 years following the July 1, 1981 effective date of section 301-307, a total of only 3482 requests for reexamination were received by the PTO. Third party requesters made fifty-five percent of these requests.

We believe that the use of reexamination by third party requesters has been limited by the inability of third party requesters to participate significantly in the reexamination prosecution.

Under the current procedure, a third party requester files, as part of its request for reexamination, reasons that it believes support reexamination. Section 303 provides that the Commissioner then has three months within which to determine if "a substantial new question of patentability affecting any claim of the patent is raised by the request".

If such a determination is made, the Commissioner must order reexamination and allow the patent owner at least two months to file a statement in response. If, and only if, the patent owner files such a statement, the third party requester has one, and only one, opportunity to be heard.

Many patent owners forego their right to comment on the order of reexamination thereby denying third party protestors even that one opportunity to reply.

Increased Participation by Third Party Requesters

As early as 1985, our Section identified this very limited role for third party requesters as a deficiency in the present reexamination statutes and procedures. At that time, we called for legislation to provide a greater degree of participation by third-party requesters in reexamination proceedings. We specifically recommended that this greater participation include a privilege of responding one time to each response by the patent owner to an official action.

In 1993, we adopted a policy favoring consolidation of the order for reexamination and first office action. At the same time, we favored allowing a third party requester to submit written comments, within strict time deadlines, on the patent owner's response to the first office action. We recommended limiting the scope of such comments to issues covered by the office action and the patent owner's response.

Title V of the draft bill goes a long way toward achieving these objectives. Consolidation is permissive under the bill rather than mandatory, but the PTO has indicated that it expects that consolidation will occur in the vast majority of cases.

The bill would allow third party requesters to comment upon any patent owner response filed to any PTO office action on the merits. This would be limited to one time only written comments within 30 days from the date of service of the patent owner's response. Third party comments would be limited to issues covered by the Office action or the patent owner's response.

The Section of Intellectual Property Law believes that these changes are important and beneficial. Under current law, once reexamination is ordered, the proceedings become essentially *ex parte* between the examiner and the patent owner. The only opportunity for third party participation other than filing an original request occurs if the patent owner elects to respond to the order of reexamination. There is no opportunity to comment on any other office actions during the course of reexamination.

This inability to be heard throughout the reexamination process, coupled with a belief that courts and juries are more likely to uphold the validity of a reexamined patent, often leads potential third requesters to argue patentability in front of a judge or jury, rather than in a reexamination proceeding.

Our section has for many years favored modifying reexamination statutes and procedures to address these disincentives to utilization of reexamination as an alternative to litigation. We believe that title V, the Patent Litigation Reduction Act, addresses these concerns in a positive way, and holds out real hope that the expectations expressed in the Committee Report in 1980 might be realized.

The bill amends section 304 to eliminate the patent owner's privilege of filing a statement in response to the reexamination order. Since no such statement is allowed, the bill removes the strategic advantage that the patent owner now has to submit a statement when it is to his or her advantage to do so, but forego a statement when the patent owner feels it is more advantageous to deny a privilege of response by the third party.

Compliance with Section 112

As originally considered in the 104th and 105th Congresses, the provisions now found in title V included provisions which would expand the scope of reexamination to include the requirements of 35 U. S. C. 112, except for the best mode requirement. We favor such an expansion, and regret the fact that you have found it necessary to eliminate this provision.

Preventing Two Bites at the Same Apple

Title V adds a new section 308 to title 35. Proposed section 308 (b) is designed to prevent a losing party in infringement litigation from "relitigating" its assertion of the invalidity of patent claim by filing a third party request for reexamination with the PTO.

The Intellectual Property Law Section supports this provision, which is consistent with a policy position that we adopted in 1993.

Third Party Participation in Examiner Interviews

Our Section also supports a requirement that, under controlled conditions, third party requesters be permitted to participate in any examiner interview initiated by the patent owner or by the examiner in reexamination proceedings.

Title V was first proposed to the Congress by the Department of Commerce during the 103rd Congress. The "Statement of Purpose and Need" accompanying the Speaker letter which transmitted the proposed bill to the Congress addressed the question of such third party participation in examiner interviews. The Statement noted that, while no statutory provisions exist or were proposed in the Administration draft bill in this regard, the Office has the authority to provide for such participation by rule making.

The Statement of Purpose and Need concluded the discussion of this topic with the following observations: "Such interviews could be conducted under controlled conditions before the examiner and could include the participation of an additional, more senior, Office representative. Third-party requesters should not be permitted to initiate examiner interviews."

We support these conditions of third party participation, which are virtually identical to conditions called for in our 1993 policy statement.

Accordingly, we recommend that such third party requester participation be specifically authorized by an amendment to the bill. We further recommend that the bill not permit third party requesters to initiate interviews, and that a senior PTO official should join the examiner in conducting the interview.

Appellate Rights

As a further incentive to utilization of reexamination, H.R. 1732 would provide third party requesters with appeal rights parallel to those provided to patent owners, both to the Board and to the Federal Circuit. Review by way of a civil action under 35 U.S.C. 145 is not provided for.

If these appeal rights are exercised, the third party is then estopped from later asserting, in any other forum, the invalidity of any claim determined to be patentable on appeal on any ground which the third party raised or could have raised in reexamination. This is to add finality to reexamination when the third party appeals or participates in an appeal. The Intellectual Property Law Section of the ABA recognizes the importance of issues of appeal rights in the overall proposal to reform laws and procedures governing patent reexamination, and we support the reforms proposed in title V.

Title VI—Patent and Trademark Office

As early as 1980, the American Bar Association adopted a policy favoring legislation to give the Patent and Trademark Office separate agency status outside the Department of Commerce. At that time, a bill (H.R. 6933, 96th Congress) to accomplish that result was reported by the House Judiciary Committee. The House did not act on the bill, and it never became law.

Since 1980, the case for greater operating independence on the part of the PTO has grown even stronger. In the 1980's, we saw a movement toward first partial, and later full, funding of the PTO through user fees. We in the ABA did not favor the elimination of all public funding for the PTO. However, it has become a reality, one that is unlikely to be reversed in the foreseeable future.

The fact that the PTO is now funded entirely by user fees is a development that argues most strongly in favor of restructuring the PTO to give it more operational independence.

Fifty years ago, with the enactment of the Government Corporation Control Act of 1945, Congress recognized that traditional governmental control systems, includ-

ing budget, personnel, financial management, and procurement systems, are not suitable for revenue producing and self-sustaining operations, such as the PTO.

In its August 1995 report entitled "Incorporating the Patent and Trademark Office", the National Academy of Public Administration (NAPA) identified established criteria for the use of government corporate structures. The Academy is a Congressionally chartered, nonprofit, nonpartisan organization formed to assist governments at all levels to improve their efficiency and performance.

According to NAPA's analysis, corporate structure is appropriate for government programs which are predominately of a business nature, are revenue producing and self-sustaining or potentially self-sustaining, and involve a large number of transactions. These criteria are found in the Government Corporation Control Act of 1945, were articulated in President Truman's 1948 Budget Message, and were reaffirmed by the First Hoover Commission in 1949 and by NAPA's own 1981 Report on Government Corporations.

We agree with NAPA's conclusion that the PTO meets the basic tests of these criteria. In fact, the Academy's report four years ago represents the third NAPA report recommending corporate status for the PTO. The earlier reports were issued in 1985 and 1989, before the PTO had become fully funded by user fees.

There are a number of concrete examples of the benefits of corporate structure, or similar restructuring of the PTO, to be found in recent history of the Office.

Early in President Clinton's first term, the present Administration mandated that virtually all executive branch agencies reduce their number of employees by a certain more or less arbitrary percentage. The PTO was included in this mandate to reduce FTE's, or "full time equivalent" employment levels. This is a prime example of circumstances in which rules that may make sense for typical government agencies make little or no sense for self-sustaining operations.

From the point of view of providing necessary funding, the present structure of the PTO works pretty well-when it is allowed to work. As the workload increases through increased applications for patents and for registration of trademarks—and it has risen steadily and predictably in recent years—more employees are needed to handle the workload. However, since rising applications mean rising revenues, the process is self-correcting, and produces the needed additional revenue to sustain operations. The same would of course be true if service needs were to decrease: less revenue, but fewer staff needed.

However, compliance with mandates for arbitrary across the board staff reductions presents the PTO with the following dilemma: reduce services, even if demand and revenue to support the demand are rising, or provide the necessary services by devices such as contracting out services, almost inevitably at a higher unit cost for the services involved.

From the point of view of government efficiency and economy, this obviously makes no sense. It also makes no sense from the point of view of fairness to the users who finance and sustain the patent and trademark operations. They likely will find themselves paying the same for reduced and inferior services, or will shortly be called upon to pay even more in order to sustain the same level of services through less efficient, more costly mechanisms. We are pleased to note that title VI of the American Inventors Protection Act provides that the PTO would not be subject to such administratively or statutorily imposed limitations on positions or personnel.

Earlier, our statement made reference to a long standing American Bar Association policy favoring independent status for the PTO outside the Department of Commerce. The Section of Intellectual Property Law has favored providing this independence by restructuring the PTO as a government corporation, and that the new organization should be headed by a person with considerable experience in patent and trademark law, appointed for a term of years by the President, with the advice and consent of the Senate. The corporation should have a board of directors, including members from the private sector with experience in patent and trademark law, should have a CEO who is the chief spokesperson for the United States on patent and trademark matters, and have operating and financial flexibility similar to that of a private corporation.

A central issue concerning restructuring the PTO is the degree of independence which the organization and its leadership will be permitted to exercise under the new structure. Differences between the Administration and Congressional sponsors of this legislation in the previous two Congresses were never totally resolved. Difficulty in resolving these differences delayed final action on the legislation, and this delay was perhaps responsible for the fact that the legislation was not enacted.

The Intellectual Property Law Section of the ABA supports a structure under which both responsibility and accountability are focused on the person heading the restructured PTO. We believe that the PTO should be outside the Department of

Commerce, as called for in your Committee's predecessor bills, H.R. 1659 and H.R. 400. Our preference is for total separation from the Department of Commerce. We recognize, however, that under any and all structures, the PTO will remain a part of the executive branch government, and subject to policy direction from the President. We also understand that the Congress and/or the President may decide that, whether organized as a government corporation, as provided for in H.R. 400, or as an independent agency, as called for in your new bill, the PTO should be subject to general policy direction not only from the President, but from another officer of the government, such as a cabinet Secretary.

Title VI of the American Inventors Protection Act provides for such a structure. Although outside the Department of Commerce ("an independent agency of the United States, separate from any department of the United States"), the corporation would be "under the policy direction of the Secretary of Commerce." Significantly, the bill also provides that "for purposes of internal management, the United States Patent and Trademark Office shall not be subject to direction or supervision by any department of the United States, except as otherwise provided in this title." We consider this provision to be one intended to establish operational independence of the Office from Department of Commerce supervision, as well as an underscoring of Congressional intent that "policy direction from the Secretary" means just that, and only that. It does not constitute authority for intervention and supervision by subordinate units of the Department.

We find this to be an acceptable and workable resolution of the governance issues, and we support enactment of title VI of the Committee Print of the bill.

H.R. 1225

The Intellectual Property Law Section of the ABA strongly opposes the diversion of user fee revenue paid to the PTO to fund other programs, or otherwise withheld from use to fund the operations of the PTO. Because we strongly oppose such practices, we also strongly support all the provisions of H.R. 1225, Chairman Coble's bill to authorize funding for the PTO for fiscal year 2000. H.R. 1225 would make available for PTO use in fiscal year 2000 some \$116 million expected to be carried over from FY 1999 fee collections, and would make available to the PTO all fee revenue collected in FY 2000. Finally, to complete its assault upon misuse of PTO user fees, H.R. 1225 would statutorily prohibit the imposition of an additional patent and trademark fee surcharge which was proposed in the President's budget proposal for funding the PTO in FY 2000.

The Subcommittee on Courts and Intellectual Property played a lead role in curbing abuse of PTO user fee revenue in the 105th Congress. By refusing to authorize a fee structure to the extent the revenue to be raised was earmarked for diversion, you not only saved the PTO's customers \$50 million in excessive fees, but you drew a line in the sand to deter future transgressions. We believe that the strong position you adopted at that time was instrumental in producing the much more responsible proposal found in the President's budget proposal for the PTO for FY 2000, as compared to that of the previous two years. This year no diversion or rescission of PTO fee revenue is proposed, and, for the first time, the annual representation that funds carried over from the previous fiscal year will be made available in the new fiscal year is actually scheduled for implementation. While battles have been won, the war is by no means over. The President's proposal still calls for rolling over a substantial portion of user fees to be collected in FY 2000 into FY 2001, creating the potential for future mischief regarding these funds. It also proposes the imposition of still another surcharge to pay for allegedly unfunded expenditures, despite the fact of a large surplus in fee collections above authorized expenditures. Both of these potentials for further misuse of PTO fee collections are addressed in H.R. 1225, and the Section of Intellectual Property Law strongly supports its enactment.

PREPARED STATEMENT OF THE INTERNATIONAL TRADEMARK ASSOCIATION

INTRODUCTION

Chairman Rogers, Ranking Member Mollohan, and Members of the Subcommittee:

The International Trademark Association (INTA) is pleased to submit a statement in support of the Clinton Administration's proposed appropriation for the United States Patent and Trademark Office (USPTO) in Fiscal Year (FY) 2000. In our opinion, all of the monies contained in the proposed \$922 million operating budget are essential for the Agency to carry out its designated functions, meet the needs of its

customers (patent and trademark owners), improve the quality of examinations, and plan for a future that is steeped in technology and global competition.

We ask that Congress approve the President's request without amendment or diversion of funds to other government agencies and ensure that the USPTO receives all of the money it requires to satisfy the ambitious, worthwhile, and necessary agenda laid out by the Agency's leadership. In particular, we commend Acting Commissioner of Patents and Trademarks Q. Todd Dickinson and his staff for recognizing the value of America's intellectual property and the need to provide customers of the USPTO with prompt and efficient service of the highest quality.

ABOUT INTA

INTA is a 120-year-old not-for-profit membership organization. Since its founding in 1878, membership has grown from 17 New York-based manufacturers to approximately 3,700 members from the United States and 119 additional countries.

Membership in INTA is open to trademark owners and those who serve trademark owners. Its members are corporations, advertising agencies, professional and trade associations, and law firms practicing trademark law. INTA's membership is diverse, crossing all industry lines and spanning a broad range of manufacturing, retail and service operations. All of INTA's members, regardless of their size or level or international scope, share a common interest in trademarks and a recognition of the importance of trademarks to their owners, to the general public, and to the economy of the United States and the global marketplace.

THE USPTO—A SELF-FUNDED AGENCY

The USPTO is an agency within the Department of Commerce (DoC) which has two statutory functions: (1) processing patent applications and disseminating patent information; and (2) registering trademarks and disseminating trademark information.¹ In carrying out these basic, yet essential, commercial functions, the USPTO promotes economic growth, consumer confidence, product safety, creativity, and innovation. On the world stage, the Agency has been instrumental in helping America secure a leadership role in the global marketplace through trade agreements and international treaties for the protection of intellectual property.

In the discussion concerning monies appropriated to the USPTO, it is important to remember that the Agency attends to its responsibilities without the assistance of a single penny of taxpayer money.² This has been true since the passage of the Omnibus Budget Reconciliation Act (OBRA) of 1990.³ The money used to support operations, policy development, and long-range planning of the USPTO is provided solely by patent and trademark owners seeking the registration and maintenance of their intellectual property. The nature of this funding mechanism requires that the USPTO be operated in the same manner as a private sector business: reinvesting a significant portion of the money it makes in new ideas and technology in order to remain competitive, maintaining a "nest egg" in case of emergencies, and providing customers with quality service—essentially giving them "the most bang for their buck."

GOALS FOR THE USPTO—FY 2000 AND BEYOND

Success as a corporate-like entity cannot be achieved unless there are goals established and a plan by which those goals can be realized. Without a blueprint, there is an increased likelihood that funds raised through user-fees will be squandered or carelessly spent. INTA is pleased by the USPTO's development and planned implementation of goals which we believe are essential to furthering the cultivation of America's intellectual property infrastructure and to maintain this Nation's position in the global marketplace.

In particular, we are encouraged by the Agency's renewed commitment to "implement an integrated, agency-wide quality improvement program to satisfy customer needs."⁴ For trademarks, the USPTO acknowledges that it will expand its investment in new technology designed to improve searches and work with trademark

¹ United States, U.S. Patent and Trademark Office, *Setting the Course for the Future: A Patent and Trademark Office Review—Fiscal Year 1995* (Washington, USPTO, 1996) 4.

² United States, General Accounting Office, *Intellectual Property: Fees Are Not Always Commensurate With the Costs of Services* (Washington: GAO, May, 1997) 32.

³ Public Law 101-508, 104 Stat. 1388 (November 5, 1990).

⁴ United States, U.S. Patent and Trademark Office, *Fiscal Year 2000 Corporate Plan: Briefing for the International Trademark Association* (Arlington, VA, February 16, 1999) 11.

owners to "set and achieve" new standards of quality for examination of trademark applications.⁵ Specific examples of new uses of technology include:

- Submission of trademark applications and all follow-up papers via the Internet.
- Correspondence electronically with trademark attorneys during the prosecution of their applications.
- Timely and accurate reception of information related to changes in policies, processes, fees, etc.⁶

These advances in technology will result in greater speed and more efficient examination of trademark applications, a goal INTA has long advocated. The USPTO has committed to the trademark community to expend significant resources to achieve the following desirable results in FY 2002 or sooner:

- A reduction in the time to mail filing notices to 14 days.
- First action pendency rate of 3.0 months (FY 1998 = 7.2 months, Goal for FY 1999 = 3.9 months).
- Final notice of registration rate of 13 months (FY 1998 = 17.8 months, Goal for FY 1999 = 15.5 months).
- Issuance of a Notices of Abandonment within 45 days of the date the file is abandoned.
- Mailing of Certificates of Registration within seven days of registration.
- Centralization of the change of address functions.⁷

There are other parts of the corporate plan that are worth mentioning. Specifically, the focus on customer/employee relations, another area which has been a cause for concern in the past. USPTO has committed to spend funds to improve trademark examiners' training (with an emphasis on matters of substantive trademark law) and communications with trademark applicants (for example, providing clear and concise answers to applicants and/or their counsel).⁸

INTA believes the above listed goals are not only highly desirable, but also essential. The trademark operations within USPTO have requested \$109,312,000 to make these goals a reality.⁹ Trademark owners endorse this particular aspect of the Agency's request and urge Congress to allocate those funds.

CARRYOVER FUNDS

Finally, INTA notes the request that the USPTO be permitted to carryover funds amounting to \$159.8 million, in anticipation of unforeseen matters that result in higher than expected expenditures or reduced revenue in upcoming budgets. On the one hand, this can be seen as setting aside funds for the future—something which we wholeheartedly support. However, we must deal with the realities of "scoring," the congressional bookkeeping system (mandated by the Budget Enforcement Act) which states that legislated increases in direct spending or reductions in receipts in a functional category must be offset by other legislated reductions in direct spending or increases in receipts in that particular category.¹⁰ What "scoring" means for the USPTO is that as a practical matter "carryover" funds may be inaccessible when the Agency's budget is incorporated into the larger functional category used by Congress.

The resolution to this situation, in our opinion, properly lies with the authorizing committees for the USPTO, that is, the House and Senate Judiciary Committees. During this Congress, we intend to propose legislation that would address this issue. This would specify that the Agency could deposit and withdraw operating funds as needed (again within the limits set by Congress) without the obstacles created by the "scoring" process. It would also preserve the prerogatives of this Committee to conduct oversight and establish funding levels for the agency.

⁵ USPTO, *Fiscal Year 2000 Corporate Plan: Briefing for INTA*, 11.

⁶ USPTO, *Fiscal Year 2000 Corporate Plan: Briefing for INTA*, 24.

⁷ Department of Commerce, *FY 2000 Corporate Plan for the United States Patent and Trademark Office: Moving Into the 21st Century*, Presidential Submission, February 3, 1999, 61; see also, USPTO, *Fiscal Year 2000 Corporate Plan: Briefing for INTA*, 27.

⁸ DoC, *FY 2000 Corporate Plan for USPTO*, 51–52.

⁹ DoC, *FY 2000 Corporate Plan for USPTO*, 53.

¹⁰ The Budget Enforcement Act (BEA) was first enacted in 1990 and extended in 1993 and 1997. The 1997 extension can be found in H.R. 2015, Report #105–217, 105th Congress.

CONCLUSION

INTA once again wishes to thank Members for this opportunity. We reiterate our support for the President's proposed appropriation for the USPTO in FY 2000 and urge that Congress approve it without amendment or diversion of funds.

Put simply, in a time when America's ideas and creativity are competing on a scale never before experienced, the federal agency charged with protecting those assets must be equipped with the necessary resources, financial and otherwise, in order to carry out that very task. INTA will continue to work with the USPTO's leadership to ensure that the Agency meets its stated goals. We welcome Congress' partnership in this important effort.

INTELLECTUAL PROPERTY OWNERS
ASSOCIATION (IPO),
Washington, DC, April 28, 1999.

Hon. HOWARD COBLE, *Chairman,*
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: I am writing to comment further on IPO's support for Title III (patent extensions) in the Committee Print on Patent Reform, which I mentioned in my written statement prepared for the hearing held on March 25, 1999. I request that this letter be included in the hearing record along with my testimony.

Title III of the Committee Print achieves the same objective as the patent extension provisions in Title II of H.R. 400, which we strongly supported in the last Congress. The objective is to ensure that every diligent patent applicant will receive a term at least as long as the 17 years available under the pre-1995 law. Title III of the Committee Print clarifies the patent extensions of H.R. 400 in several respects.

Many of the problems caused by delays in the Patent and Trademark Office (PTO) could be solved without patent extensions if the PTO could grant every patent in less than three years after the application is filed. In practice, however, some applications always will be delayed in the PTO for more than three years through no fault of the applicant. We believe improvements should be made in the efficiency of PTO operations in order to speed up processing and minimize the number of cases in which patent extensions are needed, but we also continue to believe patent extensions are *absolutely necessary*. We hope that provisions along the lines of Title III of the Committee Print will be included in any patent reform bill approved by the Subcommittee.

Sincerely,

NORMAN L. BALMER, *President.*

GABRIEL P. KATONA,
New York, NY, March 29, 1999.

Hon. HOWARD COBLE, *Chairman,*
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: It is respectfully requested that my enclosed comments be considered in connection with the Committee print of the proposed new patent Bill, and be made part of its official record.

Respectfully submitted,

GABRIEL P. KATONA.

COMMENTS ON COMMITTEE PRINT OF COBLE PATENT BILL—MARCH 1999

This House document which was rushed to a hearing in such an unseemly haste that it does not even have a Bill number, is practically devoid of any desirable content. It is an exceedingly poor, and most unintelligent legislative proposal. It adds practically nothing useful or desirable to the existing Patent Act, and, therefore, should not be enacted. A number of small proposals of this bill are already in effect, and should not be restated, frequently in a less desirable manner as they are currently in effect. It is regrettable that so much legislative churning is carried out in connection with such useless legislation, when there could be much more meaningful provisions considered and enacted (e.g. deferred prosecution) with a fraction of the now wasted effort..

We can very quickly dispose of the very few desirable parts of this otherwise undesirable proposal:

- (1) Changes from "Patent Office," to—Patent and Trademark Office;—
- (2) Correcting an error in a previous statute, making the 12 month deadline of a provisional application, expire on the next working day; and
- (3) Providing some protection for inventors against exploitation by invention promoters, albeit in a deeply flawed manner, as shown next below.

The Invention Promoting Services Proposal is deeply flawed, because it should be made applicable only to such "services" which require advance payment from inventors. There are very few, hardly any, service providers who do not require up front fees, but are willing to satisfy themselves entirely from the financial rewards of the invention, which they helped to bring about. The proposed, otherwise deservedly onerous requirements of the current proposal will be counterproductive, because they will tend to scare away the anyway too few desirable kinds of invention promoters.

The Prior Inventor Defense is illogical nonsense which would benefit only large companies which acquire rather than develop the technology that they use. It is also counterproductive and would produce a socially undesirable result. The purpose of the patent system is early disclosure of technological improvements, but instead the prior invention proposal would work to increase reliance on the socially undesirable trade secret system. This prior invention defense was embraced by the patent lobby for large industry (IPO), because of the benefits that it would provide for large businesses which are generally not the best creators of new technology on the cutting edge. One individual champion of this immunity to infringement emphasized that the cost of patenting just for the purpose of preventing another from getting a patent and excluding the initial inventor, is too high. That, however, is nonsense, because a simple, and practically cost-free defensive publication can be used just as well for defensive purposes to prevent a later patent from issuing.

Large industry kept its reason secret, for promoting the prior inventorship exception. Their reason is that with minor exceptions, such as the pharmaceutical industry, the technologically most meaningful, cutting edge innovations traditionally originate from individual inventors and from small business entities. Incidentally, that was the reason for large industry embracing the legislative shortening of the patent term to 20 years from initial filing. When e.g. a small company would make an invention which it intends to keep secret, rather than to patent, would acquire under this proposal a legislative immunity against an infringement suit, the patent owner on that invention may find that General Motors or another large company acquired the small company *and the immunity from infringement liability* along with it, and with its huge volume manufacturing would in short order render the patent worthless and put the company which bothered to get a patent, out of business. Hence the prior invention immunity proposal is an insidiously mischievous proposal.

The Patent Term Guarantee proposal is a roundabout effort to deal with some of the evil consequences of the unwise change that was rammed down the throat of the American public by the recent change of patent term legislation to 20 years from filing. The entire legislative change that was dictatorial and unnecessarily pushed through without any consideration of its consequences, through the TRIPS package, should be carefully and unemotionally reviewed and then legislatively reversed.

The publication proposal is a genuinely senseless and wasteful idea. The proposal is to duplicate what foreign patent offices are already doing, and to publish patent applications that are also filed abroad, 18 months after their initial filing. Merely, because it is done in other countries, is not a sufficient reason for instituting such an unnecessary procedure, the high extra costs of which are proposed to be put on the backs of the applicants, whose high financial patenting cost burden should be reduced, rather than increased. There are many other reasons for the senselessness of this publication proposal.

The Patent Office maintains that the average period of pendency until issue of a patent application, is 21 months. In that case alone, it makes no sense to go to the extra effort and expense to publish the application an average of 3 months before it is issued and published anyway.

The current proposal is to publish 18 months later only applications that were also filed abroad. However, those applications are already today published at the end of those 18 month in those foreign countries in which they were filed. There is simply no reason for going to the cost and effort also to publish them in this country, when any interested party can secure them over the internet from any number of other countries.

The provisional recovery feature, for eventual damages on account of an early infringement, is entirely meaningless, because claims hardly ever issue in the form in which they were 18 months after filing, rendering it impossible actually to recover damages for infringement of a claim that is pending in an application at an early stage. This provision is merely an invitation vastly to increase litigation, and associated costs.

The proposal in Section 403 of the Committee print makes tougher the current requirement for a certified copy of a foreign priority application. This requirement for routinely filing a certified copy of the priority application just for claiming a priority, should be entirely eliminated, rather than made more strict, whereby the certified copy now has to be of the "original foreign application." Certified copies should be required only when there is an actual need to substantiate the right to an earlier claimed priority. If, however, for some now unknown reason the routine certified copy requirement is retained, it should be loosened, also to make acceptable a certified copy prepared by WIPO of a certified copy of the original foreign application, since such WIPO-certified copies are often already available within the PTO from international applications that designated the United States, and do not have to be separately acquired.

The reexamination provisions, euphemistically referred to as "Patent Litigation Reduction Act," by enlarging the right of third parties to participate in reexamination and appeals, would be a vastly counterproductive enactment. The reexamination could under the proposal still be requested only on the basis of prior art, and only if it was not considered during prosecution. This would exclude references of record, which are with notorious frequency found to be inadequately considered during examination. The now proposed enlargement of the limited reexamination process would provide a forum for large companies to initiate, now even more vexatious and even more costly reexaminations, even if only on a specious basis, and through the now to be made available all kinds of appeals, to try to wear out financially small companies and individual inventors, and extend the right of an infringer to continue infringing, and delay justice, even if the basis for such reexaminations still remains most limited. As we have seen with the disastrous and discredited Dann Amendment reexaminations a few years ago, it has been amply established that the Patent and Trademark Office is not a suitable forum for such *inter partes* exercises.

The patent fee increase for reviving unintentionally abandoned applications is unjustifiably increased, and the applicability of small entity discounts is proposed to be eliminated. Such revivals impose practically no burden on the PTO, and their increased patenting cost burden on the public is entirely unwarranted.

The PTO reorganization proposals, into a neither fish nor fowl institution (which could also receive gifts from supposedly public spirited large companies e.g. a PTO luxury booth to sports events?), were a pet project of the previous Commissioner, who wanted to create a cozy "policymaking" niche for himself in the Commerce Department, rather than to have to deal with the administrative details of the PTO. While there is no major opposition to making the PTO an independent agency, much of the excess baggage of the current proposal does not make sense. There is no need to continue the PTO under the meaningless "policy direction of the Secretary of Commerce," a department the Republican Congressional majority vowed to abolish anyway.

The feature of the proposal that would legislatively compel maintaining the PTO "in the metropolitan Washington DC area" lacks any sense or reason.

The proposal would enable the head of the PTO (to be dubbed "Director") to consult the General Services Administration (GSA), as he desires. The GSA has been always a desirable check on the unbridled waste of many past Patent Commissioners, especially as far as the black hole for public funds existed in the PTO automation area. The requirement that GSA continue to ride herd on PTO spending, should be retained.

The Director's Bonus is proposed as up to 50% of his base salary, but not to exceed the President's compensation. The current bonus system in the PTO is a closely guarded secret, but no reason is seen to introduce such kind of private industry largesse into federal executive compensation schemes.

The qualifications of members of the advisory committee (nothing like a board of directors) for the proposed new privatized PTO, specifies the required experience for the members, but does not include any with a background in patents or trademarks.

Except as already indicated at the outset, the mishmash of "technical amendments" comprising the voluminous balance of the proposed bill, is entirely superfluous.

This proposal should not be enacted!

PREPARED STATEMENT OF HON. DUNCAN HUNTER, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF CALIFORNIA

Mr. Chairman, although I was unable to join you in person this afternoon to discuss your recently released draft legislation, I want to thank you for the opportunity to submit my comments for the record. As you know, I am deeply interested in the issue of patent reform and, like you Mr. Chairman, I am dedicated to passing legislation that will protect and strengthen our current patent system.

I would like to take this opportunity to commend you on your work and interest in this very vital issue. Patents, though complicated, are a vital force in our economy. New inventions and innovations in engineering, bio-technology and manufacturing create jobs in America, while at the same time, secure our economic growth and prosperity in the future. Mr. Chairman, you have heard me say it in the past, but I will reiterate it again for the record: America is heavy on ideas, while many other countries are heavy on production. Our patent system has proven to be an incredible incentive for our nations innovators.

I appreciate your providing me with an advanced copy of your proposed legislation, "American Inventors Protection Act." While I have not had an opportunity to thoroughly examine the draft bill, I was pleased to note several sections of the legislation where we agree and I am hopeful that we can work together to reconcile the areas where there are still some differences.

Specifically, I would like to indicate my support for converting the PTO to an independent agency with all of its employees retaining all the rights and protections of federal employees. In addition, I was pleased to see several PTO reforms that I advocated in my legislation last year, H.R. 812, put forth in your draft. One of the most important of these policies is lifting the FITE (full-time employee) cap off the office, which should empower the agency to meet the heavy demands placed on the office. Further, increased examiner training and incentive packages to keep senior examiners in the office will help make the PTO more efficient and ensure quality patent issuance. Finally, I support retaining all fees paid by patent applicants and holders within the office. I have long shared your opposition to what amounts to a tax on innovation and I look forward to its elimination.

I am concerned, however, that under this draft of the bill, the PTO would be exempt from many federal rules and regulations, particularly in the arena of procurement. I largely agree with assertions made that federal procurement regulations are often burdensome and cause delays in purchasing, thereby adding to the cost of government. While I would be supportive of a bill that sought to reform our current federal procurement laws, I hesitate to exempt just one agency, particularly one that would be newly independent, from these legislatively enacted procurement laws.

In examining other sections of the draft legislation, I welcome the effort made to protect small inventors who do not wish to have their patent published. As you know, I feel very strongly that the integrity of our system would have been compromised if we had changed our policy to incorporate 18 month publication of patent applications. I would like to see additional language added to your draft that would dictate the publication to encompass only the information that was published elsewhere. As you know, the scope of what is published varies considerably from country to country. I don't want to see U.S. individuals and companies discriminated against because we published their U.S. patent application which tends to include more information than other countries require.

The final issue I would like to touch on today is title 11, the First to Invent Prior American Innovators Continued Use Defense. Mr. Chairman, as much as I appreciate your effort to limit this defense to processes and end use, I must remain adamantly opposed to this title. The Constitution provides for writers and authors to receive, for a limited time, "*exclusive right* to their respective writings and discoveries." This was important to the founding fathers because they saw this guarantee of exclusivity as a means of informing the public of new innovations. As a result, a patent, and the exclusive right that accompanies it, is basically an incentive to share your idea and/or invention with the public. If we start giving inventors who choose not to benefit the public with the same protections as those who apply for a patent that will ultimately benefit the public, then we have largely eliminated the incentive of the system. For those who choose to keep their inventions as a trade secret, that is a decision they have made and for which they are responsible. For that reason, I cannot support this provision of the draft legislation.

Mr. Chairman, I want to reiterate my appreciation of your effort to work with me and my other colleagues who have an interest in this issue. I am very hopeful that by working together we will be able to pass patent reform that will address the limited shortcomings of the current system, particularly in the arena of tenn protection,

and retain the overall integrity of our patent system. I am looking forward to meeting with you and other interested parties in the future to develop consensus legislation.

Thank you, Mr. Chairman.

NATIONAL ASSOCIATION OF
MANUFACTURERS (NAM),
Washington, DC, April 5, 1999.

Hon. HOWARD COBLE, *Chairman,*
Subcommittee on Courts and Intellectual Property,
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The National Association of Manufacturers (NAM), representing 14,000 member companies with 85 percent of America's manufacturing capacity, wishes to submit the following comments for the record of the Subcommittee's March 25, 1999, hearing on patent reform and the reauthorization of the Patent and Trademark Office.

Mr. Chairman, the NAM appreciates your continuing efforts at comprehensive patent reform and assures you of its continuing support. We will limit our comments in this letter to the question of instituting a statutory prior user defense. The NAM views this provision as vital to the success of the overall reform effort for numerous strong reasons. None of the objections raised by opponents stands up to scrutiny, and we encourage you to proceed confidently with this provision in a new reform bill.

1. *The Proposal Is Limited to a Patent "Grandfather Clause."* Opponents of the reform legislation, having lost various other arguments against the reform package on the merits, evidently now seek to target the proposal to have the U.S. adopt the same kind of "grandfather clause" found in the patent laws of all other major nations. More properly characterized as a prior user defense, it would *not* constitute a general limitation on exercise of the exclusive rights that a patent confers. Rather, it would create only an affirmative defense limited to the specific defendant in a patent lawsuit. The party asserting the defense would bear the burden of proving that it did in fact earlier practice the technology in question.¹ The patent holder would still enjoy plenary rights as against all other parties. Notably, this statutory defense could only come into play after one party had been granted a patent, with its attendant public disclosure.

2. *Today's Status Quo Burdens U.S. Industry With High Uncertainty and Competitive Disadvantage.* Here are the key aspects of today's status quo, in which the U.S. Patent Act makes no provision relative to the coexistence of trade secrecy with a newly issued patent where there is arguable overlap between the two:

- All other major nations have adopted a prior user defense.²
- Where this defense does exist, it is rarely invoked.³
- Foreigners are awarded 46% of the new U.S. patents issued every year.⁴
- Yet foreigners control only 11% of the new manufacturing capacity in the U.S.⁵
- The U.S. suffers from a chronic trade deficit.
- In the absence of statutory clarity, appropriate and mutually beneficial licensing is impeded both by the fears of potential defendants who try not to be discovered and the risk of invalidation faced by patent holders.

3. *Against This Background, Congress Has Only Three Options:*

¹ The proposal is framed with reference to provable earlier practice of a technology in question, and in so doing it sidesteps the kind of inquiry necessitated by an interference proceeding as to which party was first to invent. It is reasonable to expect that most of the time, the party that had the first demonstrable practice was also the first to invent in a more specific sense. There could be several different situations, including one in which a patent holder discovers a certain trade secret holder but not others. Successful assertion of a prior user defense would not necessitate resolution of competing claims about who was first to invent.

² Keith Kupferschmid, "Prior User Rights: The Inventor's Lottery Ticket," *American Intellectual Property Law Association Quarterly Journal*, vol. 21:213 (no. 3 1993), pp. 212, 223.

³ *Ibid.* at 223-226.

⁴ *Creating a Patent and Trademark System for the 21st Century: Patent and Trademark Office Review Fiscal Year 1997*, pp. 87, 91.

⁵ Calculated with 1997 foreign direct investment capital inflow as the numerator and 1997 new nonresidential fixed investment as the denominator; Bureau of Economic Analysis data.

- Continue the anachronistic existing provision under which patent holders coming later in time can sue earlier inventors, resulting in the severe deprivation of continued unencumbered exercise of the earlier trade secret to its holder.
- Conversely, legislate the invalidation of a patent when it is revealed that earlier technology exists. Patents must be novel, that is, truly first. This option, while harsh, is no more so than existing U.S. law allowing for the opposite result. Today, it is possible for a U.S. court to reach the conclusion that a prior user who is also a prior inventor can invalidate the patent.
- "Grandfather" the existing trade secret holder as to his own internal use, and thereby balance the equities as all other major nations have done—the trade secret holder can continue to practice internally, and the patent remains otherwise completely valid and enforceable.

4. *Instituting a Statutory Prior User Defense Will Bring Benefits to U.S. Industry.* First, the new defense will simply be fairer to the equities of both parties, as reflected in the international consensus on this point, where neither party suffers a great loss and one only a small loss. Today, the earlier practitioner suffers the severe deprivation of the use of technology he or she first invented and kept secret as a matter of valid business judgment. In the future, the new patent holder will lose only the right to sue that one party. The uniform experience of countries where the prior user right already does exist is that it is invoked infrequently. Thus, there is simply no reason to believe that the loss of royalties from one single party, in a \$7-trillion economy, would represent a large diminution of economic opportunity.

In 1994, universities, for example, collected about \$240 million in patent licensing revenues; in 1995, about \$260 million. This amount increased sharply to \$336 million in 1996.⁶ This is all to the good: Everyone wants to see university-developed technology licensed, deployed, and used to improve business productivity. The proposed provision in question in no way blocks this positive trend; it only protects the earlier practitioner, whatever his identity, from payments to someone coming later. Any claim of appreciable loss to universities does not stand up in light of the experience of other countries with a prior user right, nor to the explosive growth of university technology licensing.

Second, the new defense will remove a self-imposed tactical disadvantage to U.S. firms stemming from the disparity in laws. Recall the asymmetry that 46 percent of U.S. patents go to foreigners but that only 11 percent of the manufacturing capacity is under direct foreign control. Thus, much of the time, a prior user right, if enacted, would protect an *American company, using technology it pioneered commercially*, against a *foreign party* suing on the basis of a U.S. patent. U.S. industry now faces the serious prospect of being sued to shut down factory operations by foreign competitors. This is why a prior user right is properly characterized as a protection for domestic manufacturing and the jobs that it creates. Meanwhile, that same foreign competitor enjoys prior-use protection at home against any such assertion of a patent by a foreign, U.S. firm.

At a time when U.S. semiconductor companies are locked in tough global competition with Japanese firms, for example, can the U.S. afford such a self-imposed disadvantage? Clearly not. The same logic holds for all other U.S. industries locked in global competition—automobiles, oil, aerospace, chemicals and pharmaceuticals, to name just a few.

Third, the change will remove a major area of uncertainty in the law. The absence of a prior user defense conflicts with the concept of first to invent. The proposed provision will supersede the case law which questions whether a patent holder can truly enforce rights against another party that was provably the first to invent, or at least earlier to invent and practice. Without it, the possibility remains that a court can interpret the trade secret as "secret prior art" that invalidates the patent.⁷ Thus, a prior user right affords reduced uncertainty and unfairness for both sides. The patent holder gains the certainty that his patent is valid for the entire economy save the proven earlier inventor; the trade secret holder gains the certainty of being able to practice his own technology internally. Today, the only guarantee from litigation, if it goes all the way to a final judgment, is a harsh result: a death sentence for either the trade secret or the patent.

Fourth, the change will promote productivity growth. One should not underestimate the contribution to productivity growth of the internal process technologies of manufacturers. Three years ago, the NAM's Board of Directors estimated that one-

⁶ "Royalties to Inventions Bring \$336-Million to Top U.S. Research Universities," *Chronicle of Higher Education*, February 27, 1998.

⁷ *Dunlop Holdings Ltd. v. Ram Golf Corp.*, 524 F.2d 33, 188 USPQ 481 (7th Cir. 1975).

third of their future productivity growth would come from improvements in process technologies.

5. *A Prior User Defense Will Help Small Manufacturers.* The Commerce Department counts about 380,000 small manufacturers in the United States.⁸ Last year, as part of its monthly series of Manufacturing Index surveys conducted with *Fortune* magazine, the NAM asked businesses whether they applied for patents and, if so, how much they were delayed in the process. Fully 46 percent of the small and medium companies said they *did not apply for patents at all*, as opposed to only 12 percent of the large companies.⁹ That means that their technology portfolio consists entirely of secrets and licenses from others. Therefore, we project that as many as 175,000 small manufacturing firms have technology portfolios consisting of trade secrets, supplemented by licenses from other firms. A prior user defense applies to all these firms as much as to any large firm.

Unavoidably, a small firm does not present as inviting a financial target as does a large one for a lawsuit with little merit. That said, reducing the number of lawsuits with little merit—no matter who the defendant may be—remains an entirely valid Congressional objective. Even aside from equity for defendants, the presence of a high caseload slows down justice for everyone else.

6. *The Submarine Patent Assault on Bar Coding Illustrates the Value of a Prior User Defense.* One single patent holder is turning around the familiar class action mode of thousands of plaintiffs suing one defendant. It brings the sole complaint against the use of bar coding by a huge class: most of U.S. industry. Bar coding has enabled the just-in-time revolution that has slashed inventory costs throughout the economy. It affords positive control of the entire supply chain, which benefits consumer by ensuring that products on retail shelves are fresh, and that recalls can be carried out, if necessary.

Letters, sent out by the hundreds, refer to licensing technology “under favorable terms.” The attempt to collect royalties from hundreds of companies for technology they have been using for many years would impose, in effect, a hidden excise tax throughout the entire economy for the use of bar coding.

In the last year alone, the Lemelson Foundation Partnership has publicly named 115 companies as defendants—the “Phoenix 26” of July 31, 1998, and the “Phoenix 8 8” of February 26, 1999, in a pair of lawsuits filed in federal district court in Arizona, plus another case against a single company. To date, more than 200 goods-producing, taxpaying firms that provide real jobs have faced such strong threats of lawsuits for tens of millions of dollars in payments that they have chosen to settle out of court, typically for amounts in the single millions of dollars. Data from the NAM’s *Technology on the Factory Floor III* report, moreover, show that two-thirds of plants with more than 100 employees use bar coding.

The original patent application in question relating to “machine vision” was filed in 1954. The applicant took advantage of lenient rules in U.S. patent practice. Interlocked procedural motions prevented the patent office from ever reaching any final dispositions of patents now in question until 1982 (meaning that the 1999 defendants are being snared in that patent’s last year of life). Most of the patents in question did not issue until even later.

These cases have strong policy implications. Congress wisely enacted a partial reform of the Patent Act in 1994, ending the term of 17 years of patent protection as measured from the day a patent is granted. That provision invited abuse in which an applicant could enjoy decades of trade secret protection and then 17 years of patent protection on top of that. The U. S. now follows the globally accepted practice of 20 years measured from the date of application, such that manipulation of the system reduces the applicant’s effective length of protection in the marketplace. Note, however, the patent office received a glut of filings in June 1995 just before the changeover became effective; many of these old-rule applications, now almost four years old, are still pending in unlimited secrecy. For example, Personalized Media Communications L.L.C. was just awarded a patent relating to pay-per-view television and the integration of Internet content into television programming. That firm also has more than 300 applications still pending as part of that glut, all relating to an original 1981 application.

The 1994 reform did not go far enough. *First*, although more than 80 percent of patents receive a longer effective term of patent protection under the new system—18 or more years in the marketplace, as opposed to 17—applications that take more

⁸ Manufacturing Extension Program, www.mep.nist.gov.

⁹ The surveys use a definition of “small and medium” as 1,000 employees or less, as opposed to the more common Small Business Administration definition of “small” as 500 employees or less. Presumably, however, the percentage for the subsegment of firms with 500 or fewer employees would be even higher.

than three years to process can suffer. By far the most typical case is a gene sequence application from the biotech industry. *Second*, although the change in term reduces the incentive to game the system, the unlimited secrecy of the patent application process continues to provide the ability to do so. As in the antitrust context, it is the combination of ability and incentive to behave in an anticompetitive fashion that must be avoided. By contrast, the rest of the world follows the practice—accepted by all parties there, and subject to no documented abuse—of publishing patent applications 18 months after they are filed.

That the reform legislation has had to make a compromise on the discipline of 18-month publication, such that U.S.-only filers will still have an ability to game the system, only makes institution of a statutory prior user defense all the more necessary. Admittedly, in the bar code cases, defendants will be unable to demonstrate any commercial practice earlier than 1954, and thus a prior user defense as proposed in the Committee Print cannot be expected to make a difference in this instance. Nonetheless, the predicament faced by hundreds of companies shows how pertinent a prior user defense would be in cases where the delay is not of such severe length.

Opponents of reform reiterate that the number of people who have misused the patent system is small. *This is true but totally irrelevant.* Each long-delayed “submarine” patent can cause great disruption. Aside from the current bar coding cases, one single patent issued in 1990 after 20 years of secrecy cost companies in the semiconductor industry about \$70 million in payments. The total economic disruption of all submarine patents in the last decade—adverse judgments, out-of-court settlements, legal defense costs—could reach \$2 billion.

7. *The Rise of New Subject Areas Creates Challenges for the PTO and Upsets Earlier Prevailing Expectations.* A prior user defense will be even more useful in new subject areas such as biotechnology, software, and business methods than in more traditional subjects such as chemistry. Applications in young fields strain the expertise and resources of the PTO, inasmuch as much more of the pertinent prior art is found outside of previous, readily searched patents. Accordingly, it is simply easier for a search to miss relevant prior art, with the result of a questionable patent being issued. While this consideration strongly argues for an improved reexamination procedure that will elicit increased voluntary use as an alternative to litigation, it also argues for a prior user defense. Moreover, when patentability in a new field is clarified, as with software and business methods,¹⁰ a prior user defense becomes especially compelling. The sharp rise in business method applications since the *State Street Bank* decision demonstrates that some parties had shied away from the expense of seeking a patent owing to the uncertainty that the subject matter would even be found acceptable. Such parties should not be penalized now, with loss of the right to practice their own technology, for a valid business judgment then.

8. *Trade Secrecy Remains a Vital Component of the Nation's Intellectual Property Portfolio, and the Proposal Would Improve the Interaction of Patents With Trade Secrets.* Trade secrets should not be denigrated. Opponents of reform evidently see nothing wrong with a party being penalized for keeping a trade secret, notwithstanding the legitimate apprehension about undetectable infringement or the confiscatory foreign fees. To the contrary, trade secrets form an indispensable part of our intellectual property rights regime. In 1996, Congress created federal trade protection for the first time ever in the Economic Espionage Act—a bill that passed the Senate by voice vote and the House by 399–3. Fundamentally, opponents mistake the aim of the provision, which is not so much to perfect patent law *per se* as to strengthen the overall regime for protecting U.S. industrial property, and thus the 18.6 million U.S. jobs in domestic manufacturing, which competes unavoidably in global markets.

Opponents postulate the circumstance of a U. S.-only patent holder losing the right to collect royalties from a multinational with a trade secret, while presenting no reason to believe that such a circumstance will be typical. Both logic and survey results point in the opposite direction. Unquestionably, the larger the company, the harder to keep a secret, and vice versa, ten people can keep a secret more easily than 10,000. In larger companies, opportunities for disclosure multiply. The NAM's survey finding that 46 percent of smaller manufacturing companies do not seek patents at all stands to reason.

Even in the hypothetical case that opponents like to cite, the result under today's law is backwards as a matter of trade policy. In the face of unaffordable foreign patent fees, some U.S. parties give up on the world market altogether, while others maintain secrets. Today, the law favors those who give up on exporting at the ex-

¹⁰ *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 Fed. 1368 (Fed. Cir. 1998), cert. denied, ___ U.S. ___ (1999).

pense of those who *do* export. Yet exporting yields one-third of U.S. economic growth; exporting firms compensate their workers 15 percent to 20% better than average;¹¹ and the United States needs every last dollar of foreign revenue it can get. Congress should take this opportunity to give a boost to the companies that face the rigors of the world market rather than giving up.

9. *Industry Strongly Prefers Patents Over Trade Secrets When Practicable.* There is no reason to suspect that proponents of reform harbor some desire to keep more secrets and file for fewer patents. To the contrary, the increased threat of loss of a trade secret, under the increased economic espionage that prompted Congress to legislate, argues for patenting over secrecy. And the global efforts of reform proponents to cut excessive foreign patent fees are consistent only with a general preference to take out patents over maintaining trade secrets.

- Inventors are heavily disposed to take out patents on new technology in the first place. The patent law contains, in effect, a highly successful buy-out offer to inventors inducing disclosure in return for enforceable rights as an alternative to the risk of trying to keep a secret. A 1983 survey showed that industry applies for patents on 67 percent to 83 percent of the eligible technology that it develops.¹²
- Yet there remain compelling reasons for companies to keep some secrets. One is that the technology relates to factory-floor processes, the infringing use of which can be almost impossible to detect and to police from the outside, especially abroad. Typically involved would be internal manufacturing or other industrial technologies *behind* products shipped and sold—a kind of heat treatment, for example, largely undetectable to the customer who sees only the well-finished metal product. The recent report from the American Society for Industrial Security, *Trends in Intellectual Property Loss*, confirms that process technologies remain the primary target of industrial spies, along with R&D. The report estimates losses at up to \$250 billion per year.
- Another reason is the confiscatory, beggar-thy-neighbor fees from foreign patent offices whose governments operate them as profit centers. Protection for the 50 largest countries costs about \$500,000,¹³ which is simply too expensive in many cases. *Proponents of the legislation are working hard to change this adverse situation*, including a conference at the International Chamber of Commerce in Paris last year. If successful, the lowered fees will make patenting more possible for everybody, provided that this private property right can be privately enforced. It can never be in a company's interest to publish factory-floor process technology as part of obtaining a patent if that patent cannot be enforced.

10. *A Prior User Defense in Patents Will Be Just As Constitutional as Limitations in Copyrights.* The charge of unconstitutionality of a prior user defense fails both logic and experience. Under the power granted by the patent-copyright clause of the Constitution, Congress may choose to create stronger or weaker rights, or even none at all. Clause 1, 1, 8 creates no rights for any individual, only a power for Congress to exercise or not. It makes no sense to say that Congress can create stronger exclusive rights but is foreclosed from creating weaker nonexclusive rights, a less far-reaching act. This understanding is reflected in the doctrine of the "lesser included power." Acting thus, Congress has legislated multiple nonexclusive licenses in the Copyright Act. Since 1909, for example, composers and music publishers have lacked the power to exclude anyone from performing and recording their music: they get only a statutory royalty. No one is proposing any such general limitation of rights in the Patent Act. The proposed prior user right would constitute only a limited, defendant-specific defense and not a general limitation on rights of any description. If a prior user defense is unconstitutional, then *a fortiori* the multiple

¹¹ J. David-Richardson and Karin Rindal, *Why Exports Matter More*, pp. 11-12 (Washington, D.C.: Institute for International Economics and the Manufacturing Institute, 1996).

¹² Edwin Mansfield, "Intellectual Property Rights, Technological Change, and Economic Growth," in Charles E. Walker and Mark A. Bloomfield, eds., *Intellectual Property Rights and Capital Formation in the Next Decade* (New York: University Press of America, 1988), p. 15. Notably, these numbers were derived *before* the highly successful improvements in federal appellate handling of patent cases took hold, making patenting even more attractive due to the marked increase in legal victories by patent holders. The rise in international espionage provides another reason to believe that patenting has increased, relative to trade secret holding.

¹³ Statistic compiled by Erwin Berrier, formerly senior patent counsel, General Electric, and James Gillman, formerly senior vice president and director of patents, trademarks, and licensing, Motorola, for the Intellectual Property Owners.

compulsory licenses in the Copyright Act are also unconstitutional—a totally untenable claim.

Once again, Mr. Chairman, the NAM appreciates your efforts.



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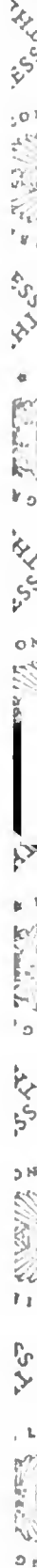
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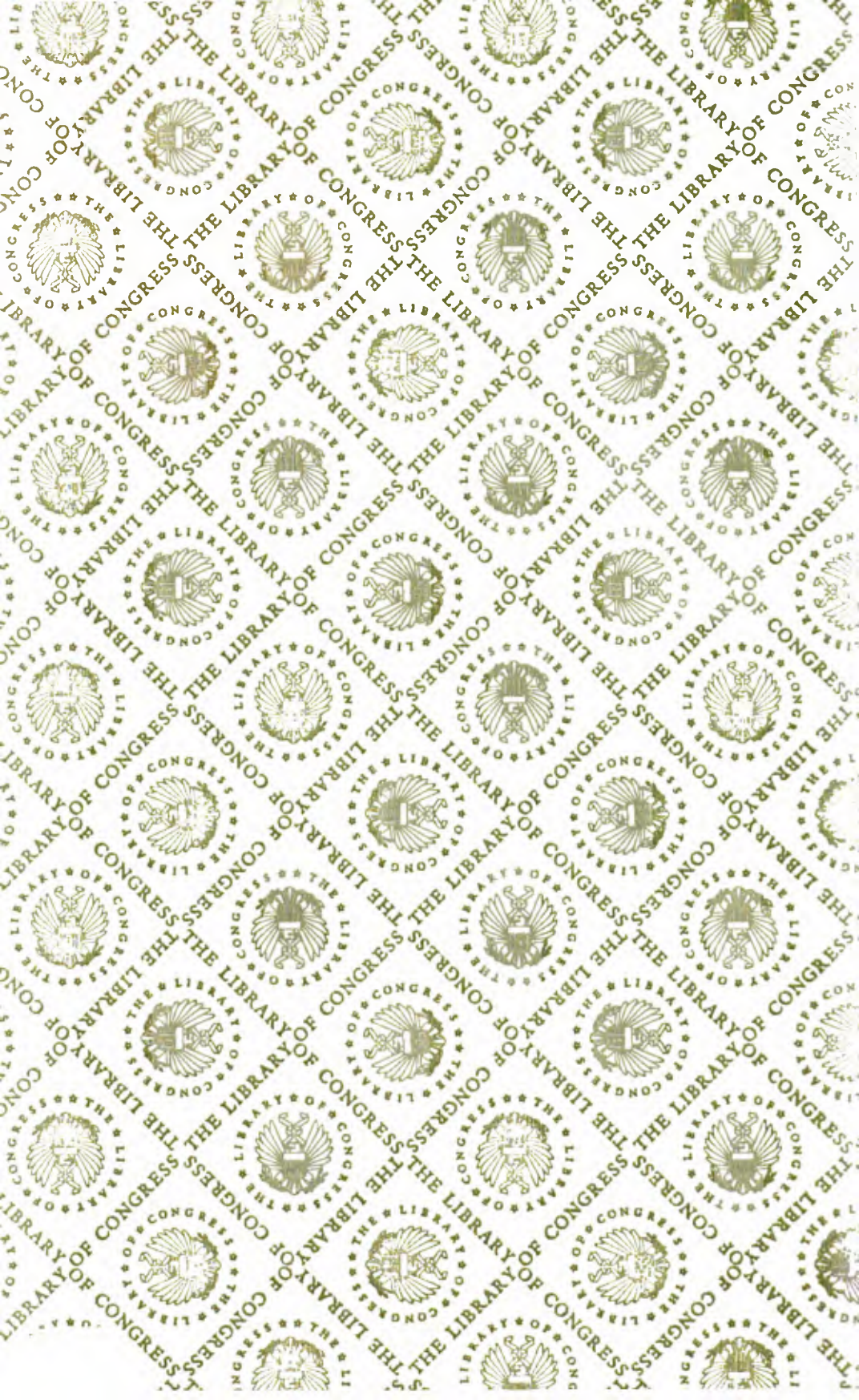


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